Telkom Group structure and revenue contribution as at March 31, 2009

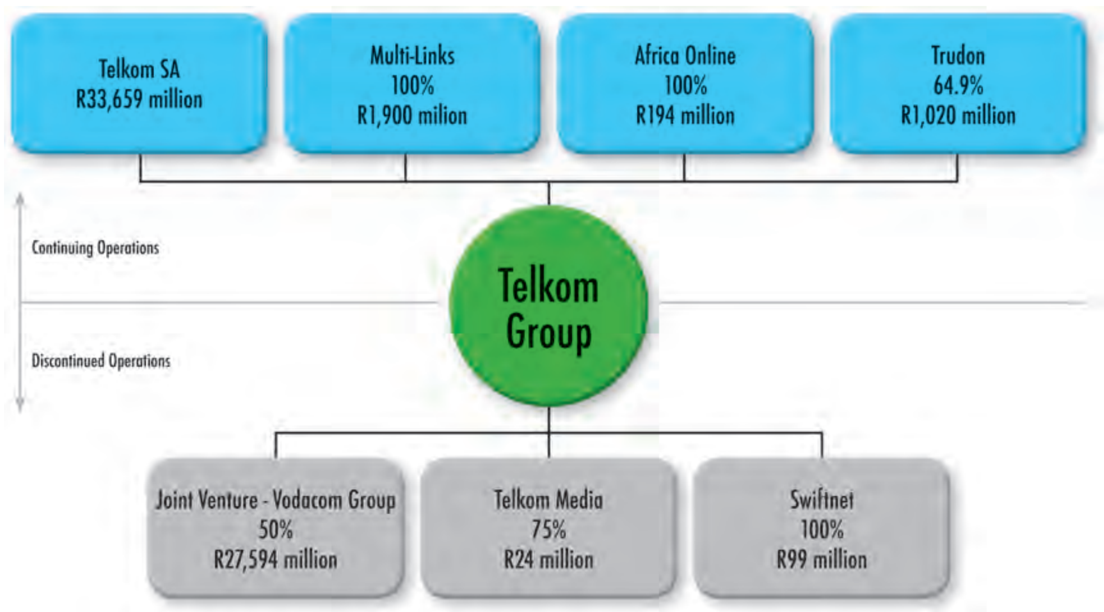
Telkom SA
Our fixed-line segment is our largest business. Telkom South Africa provides fixed-line subscription and connection, traffic, interconnection, data and internet service

Trudon – 64.9%
Trudon (Pty) Ltd, formerly known as TDS Directory Operations, provides Yellow and White page directory services, an electronic directory service, 10118 "The Talking Yellow Pages", and an online web directory service.

Multi-Links – 100%
Multi-Links Telecommunications Limited is one of Nigeria's pioneer private telephone operators. As one of the leading providers of telecommunications solutions in Nigeria, Multi-Links was one of the first to locally introduce the CDMA technology.

Telkom acquired the remaining 25% interest in Multi-Links on January 21, 2009, thereby increasing its ownership of Multi-Links to 100%.

Africa Online – 100%
Africa Online is an internet service provider (ISP) in Africa. As one of the largest Pan-African ISP in sub-Saharan Africa, Africa Online offers a wide range of services to suit a variety of customer needs. With operations in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, Africa Online is positioned to provide individuals and organisations with scalable solutions based on each client's specific needs.



Joint venture – Vodacom Group – 50%
Vodacom Group (Pty) Ltd is a leading mobile communications company in South Africa, providing mobile communications services as of March 31, 2009 to 39.6 million customers in South Africa, Tanzania, Lesotho, the Democratic Republic of the Congo and Mozambique. Vodacom has an estimated market share of 53% in South Africa.

Telkom concluded the sale and unbundling of its interest in Vodacom after year end.

Swiftnet – 100%
Swiftnet (Pty) Ltd trades under the name FastNet Wireless Services. FastNet provides synchronous wireless access on Telkom's X.25 network, Saponet-P, to its customer base. Services include retail credit card and check point of sale terminal verification, telemetry, security and fleet management.

Telkom's Board of directors has decided to dispose of Swiftnet.

Telkom Media – 75%
Telkom Media is the holder of a commercial satellite and cable subscription broadcasting licence, which allows it to operate both a satellite pay-TV service and an IPTV service in South Africa.

On May 4, 2009, Telkom sold its 75% interest in Telkom Media to Shenzhen Media South Africa (Pty) Ltd.

Telkom shareholding as at March 31, 2009

1

Government

The government of the Republic of South Africa is the largest shareholder in Telkom, holding 39.8% of the Company's issued share capital. The government is the Class A shareholder.

2

Black Ginger 33 (Pty) Ltd

Black Ginger 33 (Pty) Ltd is a wholly owned (100%) subsidiary of the Public Investment Corporation holding 8.9% of the Company's issued share capital. Black Ginger 33 is the Class B shareholder.

3

Public Investment Corporation

The Public Investment Corporation (PIC) is an investment management company wholly owned by the government. It invests funds on behalf of public sector entities. The PIC holds 6.7% of the Company's issued share capital.

4

Elephant Consortium

The Elephant Consortium is a Black Economic Empowerment group, which through Newshelf 772 (Pty) Ltd holds 7.2% of Telkom's issued share capital.

5

Telkom Treasury Stock

Rossal No 65 (Pty) Ltd holds 11,646,680 shares, 2.2% of the Company's issued share capital which were purchased for the Telkom Conditional Share Plan. Acajou Investments (Pty) Ltd holds 8,143,556 shares, 1.6% of the Company's issued share capital.

6

Free float

The free float of 33.6% makes up the remainder of the Company's issued share capital. Included in the free float are 11,570,245 shares held by 91,625 retail shareholders representing 2.2% of the Company's issued share capital.

Group Strategy – The evolution of Telkom

Defend profitable revenue

- Maintain fixed-line net revenue.
- Retain leading fixed-line market share.
- Increase annuity revenue as a percentage of total fixed-line operating revenue.

- Improve competitiveness through tariff rebalancing.
- Build customer retention initiatives that entice customers to stay with Telkom.
- Build customer loyalty by providing superior value propositions that position Telkom as the service provider of choice.
- Convert revenue streams to annuity revenue.

Grow profitable revenue through broadband and converged services

- Increase broadband penetration.
- Deliver superior data speed and quality through fixed-line network.
- Increase converged services revenue.
- Partnerships with content providers.
- Improve market share in information technology services sector.
- Expand domestic data centre operations.
- Improve innovation capability.
- Grow organically and through acquisitions.

- Expand our broadband footprint.
- Increase bandwidth to offer higher bandwidth applications.
- Provide converged information, communications and technology solutions to the enterprise market and enable the digital home in the consumer market.
- Bundle content to provide added value in subscription and pay-as-you go models.
- Target the medium to large business segment to meet their demand for end-to-end solutions.
- Satisfy customer demand for converged one-stop solutions for communications and information technology infrastructure requirements.
- Develop improved value propositions through customer understanding enabled by the customer centricity programme.
- Enhance availability to successfully partner with others where synergistic opportunities exist.

Grow profitable revenue through wireless voice and mobile data services

- Provide integrated bundled offerings.
- Combine with mobility to enhance fixed-line offering.

Transform fixed-line business to incorporate key value-added services, including mobile converged voice services.

Build a cost-effective wireless voice and mobile data network in selected areas to offer:

- Wireless access in campus environments, gated communities, security complexes and other developments.
- Mobile data services.
- Fixed and nomadic wireless voice services.

Grow profitable revenue internationally

- Increase revenue and long-term profitability from acquired African subsidiaries and international services.

Become a Pan-African integrated service provider, offering:

- International communications and internet connectivity.
- Hosting and managed data services.
- Wireless voice and mobile broadband solutions.

Leverage synergies across the Telkom Group to grow revenue from subsidiaries – organically and through acquisitions.

Introduce converged fixed and mobile service in the Nigerian market through Multi-Links.

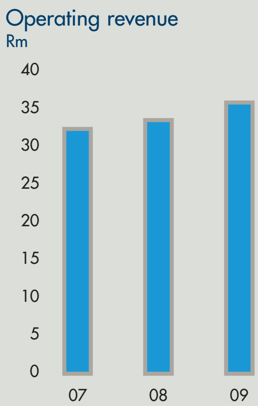
Financial review summary
Continuing operations

Solid revenue growth

The 3.3% growth in fixed-line revenue to R33.7 billion contributed to the Group's overall 6.9% revenue growth to R35.9 billion.

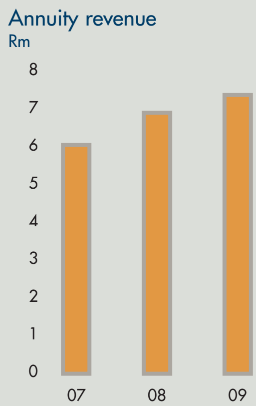
EPS & HEPS

The decrease in both headline and basic earnings per share reflects increasing operating expenses, once-off impairments of Multi-Links and Africa Online and increased finance charges and fair value movements.



R35,940m (R33,611m)

Strong growth in data revenues, higher revenue from interconnection and calling plans, partially off-set by lower traffic. Multi-Links delivered strong revenue growth as a result of subscriber growth.

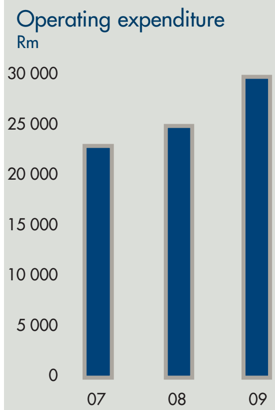


R7,387m (R6,917m)

Telkom continues to be successful in tying in large corporate customers to term and volume discount plans.

R9,310m (R8,308m)

Higher demand for data services, including ADSL, an increase in internet access and related services and managed data network services.



R29,895m (R25,014m)

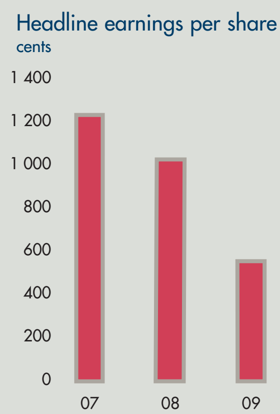
Operating expenses increased across all segments and were affected by a number of once-off items.

R6,388m (R9,069m)

Excluding the Multi-Links impairment of R1.8 billion the South African business performed well in the current high inflationary environment.

557.0 cents (1,028.9 cents)

Decrease in headline earnings reflects decrease in operating profit and increased finance charges.



Operational review summary

Quality, value for money products delivering strong growth

93% ADSL coverage

93% of our exchanges are ADSL enabled. They consist of 4,000 digital subscriber line access multiplexers, serving approximately 548,015 customers, which represents a growth of 33.0%.

27.3% increase in calling plan subscribers

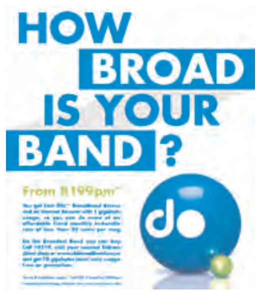
The Telkom Closer packages have performed well, increasing by 27.6% to 575,812 plans. Supreme call packages, targeted at the business segment, have increased by 14.4% to 14,778 packages and PC bundles have increased 48.3% to 11,336.

58% increase in Do Broadband packages

Do Broadband subscribers increased 58.1% to 188,540. Our current Broadband line penetration rate is 15%.

7.4% increase in wholesale internet leased lines

The growth in broadband has stimulated the demand for leased lines. Wholesale internet leased lines increased 7.4% to 24,204 lines.



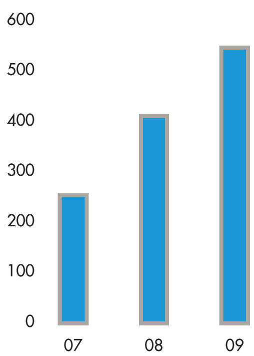
57% self-install ADSL packages

Our self-install option is very popular and had a positive impact on ADSL installation times.

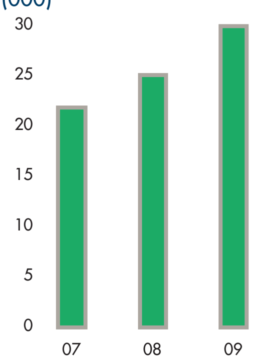
141 W-CDMA base stations selectively deployed

Telkom has commenced the deployment of a W-CDMA wireless local loop network in the 2100MHz band.

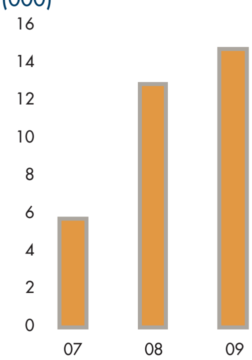
ADSL subscribers (000)



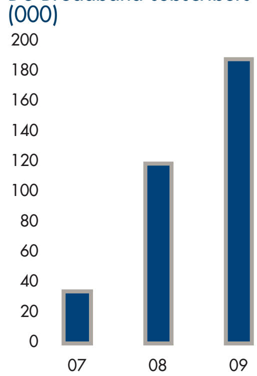
Managed data network sites (000)



Supreme Call subscribers (000)



Do Broadband subscribers (000)



Equity markets

The financial year ended March 31, 2009 was characterised by extreme volatility in global stock markets and currencies as a result of the sub-prime crisis. Despite these difficulties we managed to conclude:

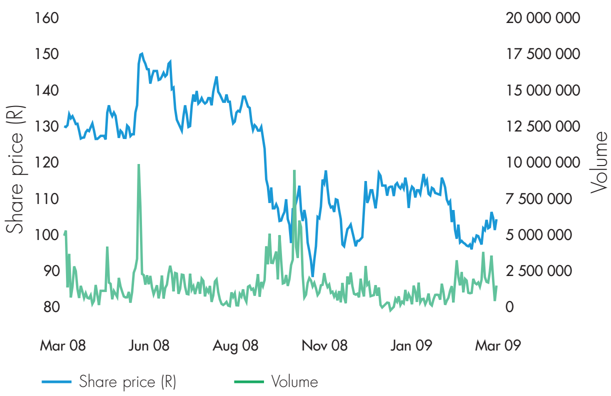
- The sale of our **15%** share in Vodacom to Vodafone Plc for the excellent price of **R22.5 billion**. In addition, the remaining **35%** share in Vodacom was unbundled directly to shareholders. Details of the transaction can be found in the performance review.
- As a result of this transaction Telkom was able to pay a special dividend of **R19.00** per share to its shareholders.
- In addition, Telkom declared an ordinary dividend of **R1.15** and a special dividend of **R2.60** in respect of the 2009 financial year.

Telkom remains committed to returning cash to shareholders and growing shareholder value.

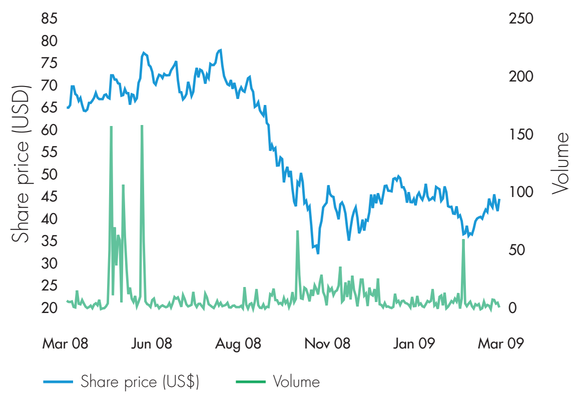
Market performance

	JSE Limited (ZAR per ordinary share) year ended March 31		NYSE (USD per ADS) year ended March 31,	
	2008	**2009**	2008	**2009**
Closing price	131.20	**105.49**	65.43	**44.93**
Highest price	195.02	**107.37**	113.00	**45.03**
Market capitalisation (millions)	68,327	**54,937**	8,519	**5,850**

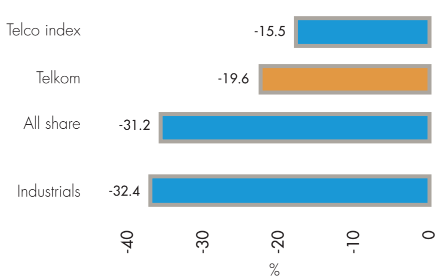
JSE share price vs volume traded



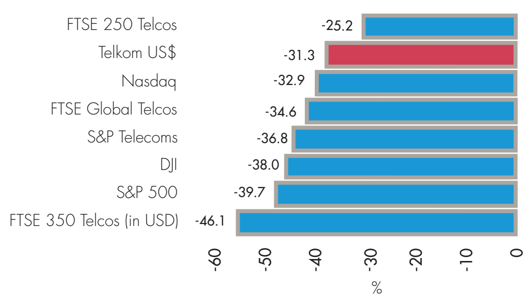
NYSE share price vs volume traded



JSE share price relative to SA indices



NYSE share price relative to major international stock market indices



The telecommunications industry

Conclusion of Vodacom transaction gives Telkom freedom to compete

Overview

Telkom is an integrated communications service provider offering bundled voice, data, broadband and internet services with its service offerings expanded to business and residential customers.

Competition in the South African fixed-line communications market is intense and is increasing as a result of the Electronic Communications Act and determinations issued by the Minister of Communications.

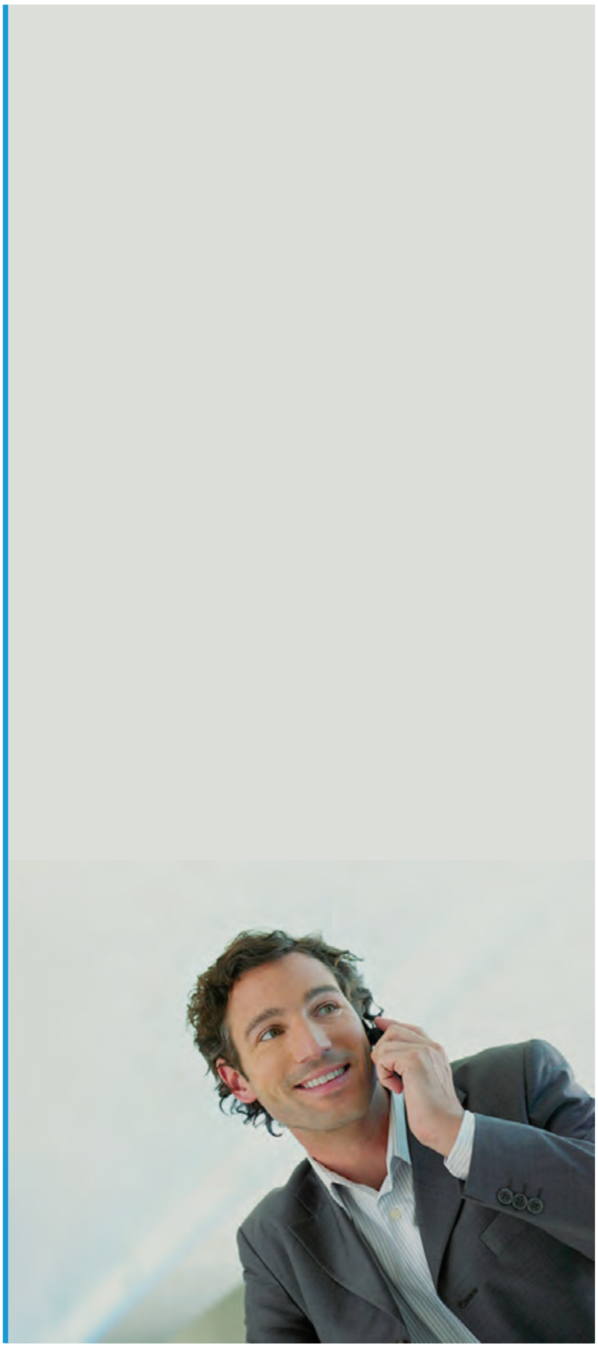
The new licensing framework included in the Act has resulted in the market becoming more horizontally layered with a large number of separate licences being issued for electronic communications network services, electronic communications services, broadcasting services and radio frequency spectrum and, as a result, this will substantially increase competition in Telkom's fixed-line business.

In the areas where we currently face competition, and expect to compete for public switched telecommunications services, Telkom competes primarily on the basis of customer service, quality, dependability and price. In addition, we intend to introduce new products, services and tariff structures to enable us to maintain and grow revenue.

Fixed-line voice competition

In September 2004, South Africa's Minister of Communications granted an additional licence to provide switched telecommunications services to Neotel, a company that was 30% owned by Transtel Telecoms, a division of Transnet Limited, and Esitel, which is beneficially owned by the South African government and other strategic equity investors, including a 26% shareholding owned by TATA Africa Holdings (Pty) Ltd, a member of the TATA Group, a large Indian conglomerate with information and communications operations. On March 19, 2008, Neotel announced that the Competition Tribunal of South Africa had approved its acquisition of Transtel without any conditions. Subsequently, TATA Africa Holdings (Pty) Ltd acquired the government's 30% equity, extending its equity in Neotel to 56%.

Neotel started providing services to large corporations and other licensees at the start of the 2007 calendar year and on April 25, 2008, announced that the first of its consumer products were



The telecommunications industry *(continued)*

All existing licences have been converted

available to limited parts of Johannesburg and Pretoria.

As a result of an amendment to the Electronic Communications Act to enable state investment and licensing in the sector, the government created an infrastructure company, Broadband Infraco (Pty) Ltd, in 2007, to provide inter-city bandwidth at cost based prices to Neotel and, later, to the rest of the industry, which added further competition to Telkom's communications network. Broadband Infraco will also be involved in some of the undersea cable projects.

Licences

On October 29, 2008, the Minister of Communications published for public comment, a draft policy direction which would direct ICASA to grant Broadband Infraco individual Electronic Communications Services (ECS) and Electronic Communications Network Services (ECNS) licences.

On March 13, 2009, ICASA published an 'invitation for a public entity to apply for individual ECNS and individual ECS licences for a public entity', inviting Broadband Infraco to submit applications for these licences.

The process to issue additional licences to small business operators for the purpose of providing telecommunications services in underserviced areas with a teledensity of less than 5% started in 2005. To date, the Minister of Communications has identified 27 underserviced areas and ICASA has issued licences to seven successful bidders with the Minister issuing invitations to apply for licences in an additional 14 areas.

All existing USAL licences, including Telkom's, have been converted into ECS and ECNS licences, and all future licences for this category will be issued as ECS and ECNS licences.

These licences provide the authorisation to construct, maintain and operate an electronic communications network and provide ECNS and ECS. All the obligations contained in Telkom's public switched telecommunications service licence, including licence fees to be paid, minimum services to be provided to customers and other service obligations, will be contained in regulations, some of which have been promulgated and some of which are in the process of being promulgated.

Telkom's licence fee under the public switched telecommunications service licence amounted to 0.1% of its annual revenue generated from the provision of the licensed public switched telecommunications services. This provision was retained following the conversion to the ECS and ECNS licences. However, in terms of a regulation published on April 1, 2009, Telkom's annual licence fees for ECS and ECNS were set at 1.5% of gross profit from licensed activities, defined as total revenue obtained from the provision of licensed services, less total costs directly incurred in the provision of such services. As a result, there may be a material increase in Telkom's annual licence fee.

On March 25, 2009, the telecommunications industry put forward proposals to ICASA regarding a Service Charter

Telkom is in the process of challenging the proposed new licence fee regulation

regulation that stipulated standard levels of service. The standards stipulated in the regulation are extremely demanding and, the communications industry has made representation to ICASA. On July 24, 2009, ICASA has repeated the previous Service Charter regulation and published a new regulation that implements many of the recommendations made by the industry.

Other licences

In August 1995, Telkom's subsidiary, Swiftnet, was granted a telecommunications licence and a radio frequency spectrum licence for the provision of:

- The construction, maintenance and operation of a national wireless data network and the provision of wireless data telecommunications services; and
- Interconnection with Telkom's network.

In terms of the licence agreement, Swiftnet was required to have at least a 30% black economic empowerment (BEE) shareholding. In spite of Telkom entering into an agreement in 2007 to sell 30% of Swiftnet to the Radio Surveillance Consortium, a group of empowerment investors, an agreement that received Competition Commission approval, ICASA did not approve the transaction. As a result, Swiftnet was in breach of its licence.

Swiftnet, assisted by Telkom, has subsequently had two meetings with ICASA on this matter and ICASA has indicated that currently there is no agreement within the industry as to acceptable BEE shareholding percentages for all licensees. ICASA also indicated that the shareholding issue for the Swiftnet licence would have to be in line with the BEE values applicable to other similar licensees.

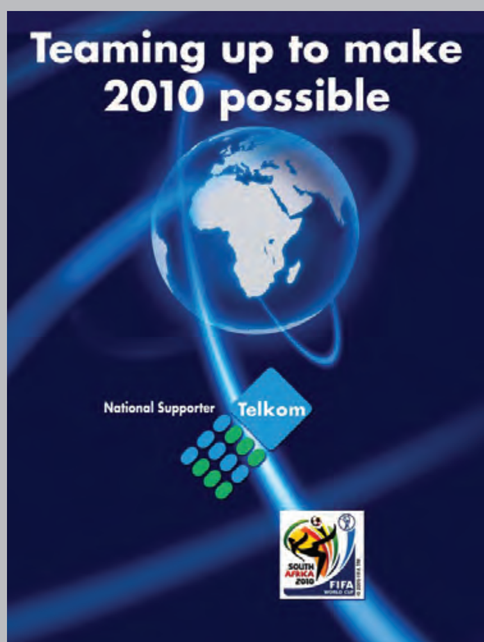
Swiftnet received a new licence from ICASA on January 16, 2009 which stipulated that the company still needed to secure a 30% BEE shareholding. However, ICASA has said that in the 2010 financial year it will be reviewing the equity shareholdings of all licensees, after which it is anticipated that all licensees will be given sufficient time to meet their equity shareholding requirements. Telkom's Board of directors has decided to dispose of Swiftnet, and Telkom is currently seeking potential purchasers that would comply with Swiftnet's BEE requirements.

Carrier pre-selection

The now repealed Telecommunications Act mandated that fixed-line operators were required to implement carrier pre-selection to enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls. These provisions were retained in the Electronic Communications Act and on June 24, 2005, regulations were published for the implementation of carrier pre-selection in two phases (the implementation of call-by-call pre-selection and fully automatic pre-selection, to be implemented and provided within two months and 10 months, respectively, of them being requested by another operator). Telkom had already conditioned its exchanges to handle call-by-call carrier pre-selection

The 2010 Telkom 'hotseat'

This is the control room – the 'hotseat' – for our 2010 World Cup soccer national transport network. From here, our highly skilled team will direct all incoming and outgoing transmissions for the duration of the tournament.



The telecommunications industry *(continued)*

Telkom has made significant progress in rebalancing its fixed-line tariffs...

by December 31, 2003. Telkom has met with Neotel to discuss its request for implementing carrier pre-selection.

Until Neotel's interconnection systems and its inter-operator process and systems to support carrier pre-selection become available, Telkom cannot fully implement carrier pre-selection. However, Telkom does not believe it can meet the 10 months deadline for automatic carrier pre-selection.

Number portability

The Telecommunications Act mandated that number portability, to enable customers to retain their fixed-line and mobile telephone numbers if they switch between fixed-line operators or between mobile operators, be introduced. These provisions were retained in the Electronic Communications Act. A framework number portability regulation was published at the end of 2004 that generically provides for the introduction of fixed-to-fixed and mobile-to-mobile number portability. Telkom is required to implement number portability in blocks of 10,000 numbers within two months after Neotel launches such retail services and individual number portability within 12 months of receiving a request from Neotel. Telkom has received a request from Neotel to implement both block and individual number portability and Telkom and Neotel implemented number portability in blocks of 10,000 and 1,000 numbers in May 2009. After several delays mobile number portability phase one was launched on November 11, 2006. Phase 2, which was implemented during April 2007, includes multi-line porting, secure file transfer protocol access to third parties and operational software upgrades on the central reference data base.

The set-up and per-operator costs are typically the largest cost components of implementing number portability. Similar to carrier pre-selection, there is a risk of not fully recovering system set-up costs. The implementation of these requirements in a timely manner, could result in Telkom's business being disrupted and cause its net profit to decline and the implementation of these requirements will likely further increase competition and cause churn rates to increase.

Fees and tariffs

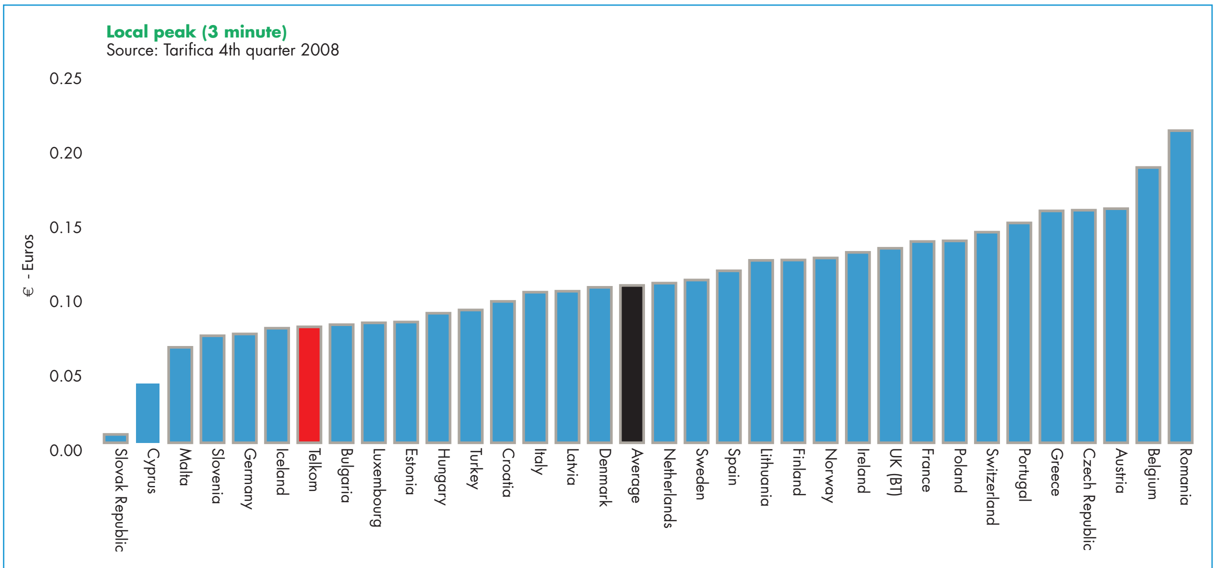
Telkom has made significant progress in rebalancing its fixed-line tariffs with a view to focusing more on the relationship between the actual costs and tariffs of subscriptions and connections and traffic in order to more accurately reflect underlying costs and to be more competitive.

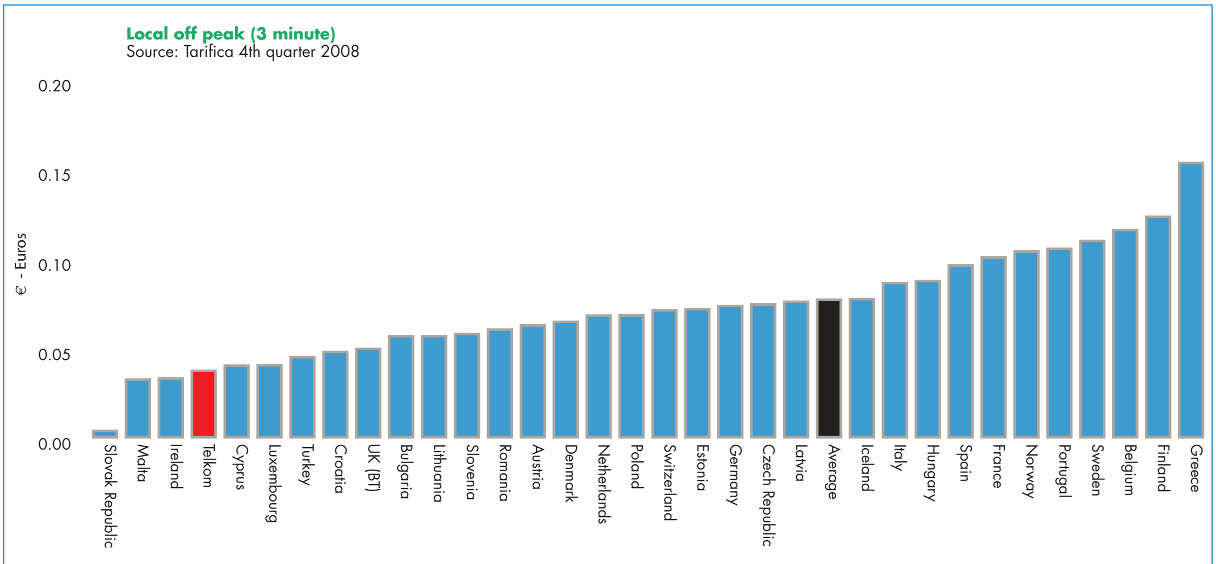
Regulations made under the repealed Telecommunications Act, but which are still in effect, imposed a price cap (3.5% below inflation, effectively implying a continuous real decrease in prices) on a basket of Telkom's specified services. These include installations; pre-paid and post-paid line rentals; local, long distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services; its Diginet product and its Megaline product. A similar cap applies to a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 Mbps of capacity and the rental and installation of business exchange lines.

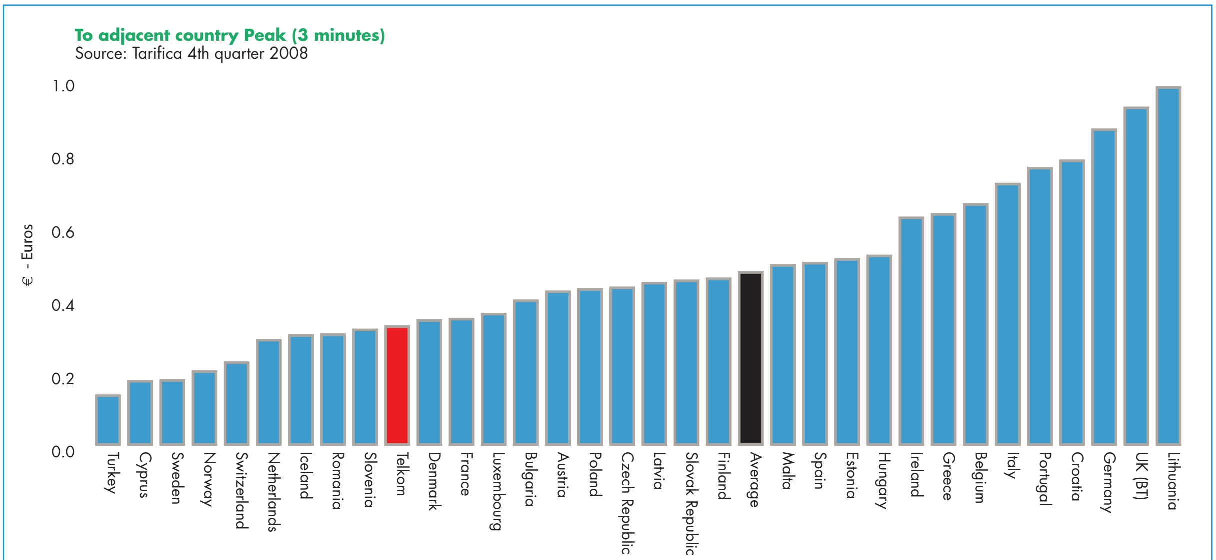
Approximately 57% of Telkom's operating revenue in the year ended March 31, 2008 was included in this basket, compared to approximately 54% in the year ended March 31, 2009.

Independent benchmarking of Telkom's pricing – Tarifica review, 4th quarter 2008

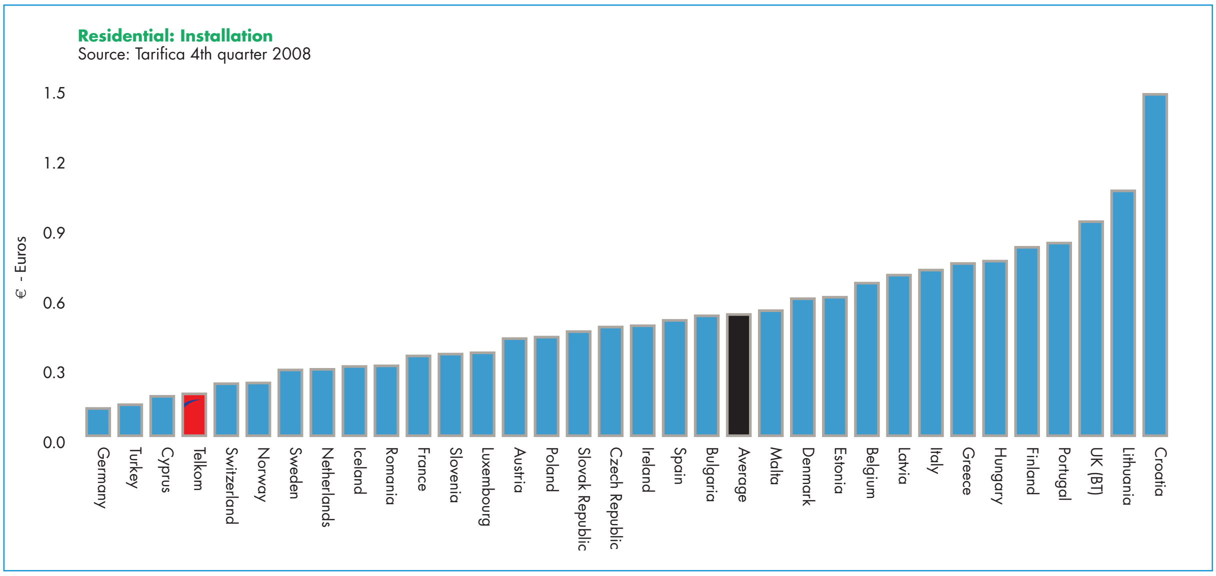
Telkom continues to manage its pricing actively in order to continually offer enhanced value to our customers. We intend to educate all our customers as to the global attractiveness of our pricing and the value offered by the fixed-line service. Telkom's mobile offering will follow the lead of the fixed-line in terms of competitive pricing. Below find a selection of Tarifica's findings.

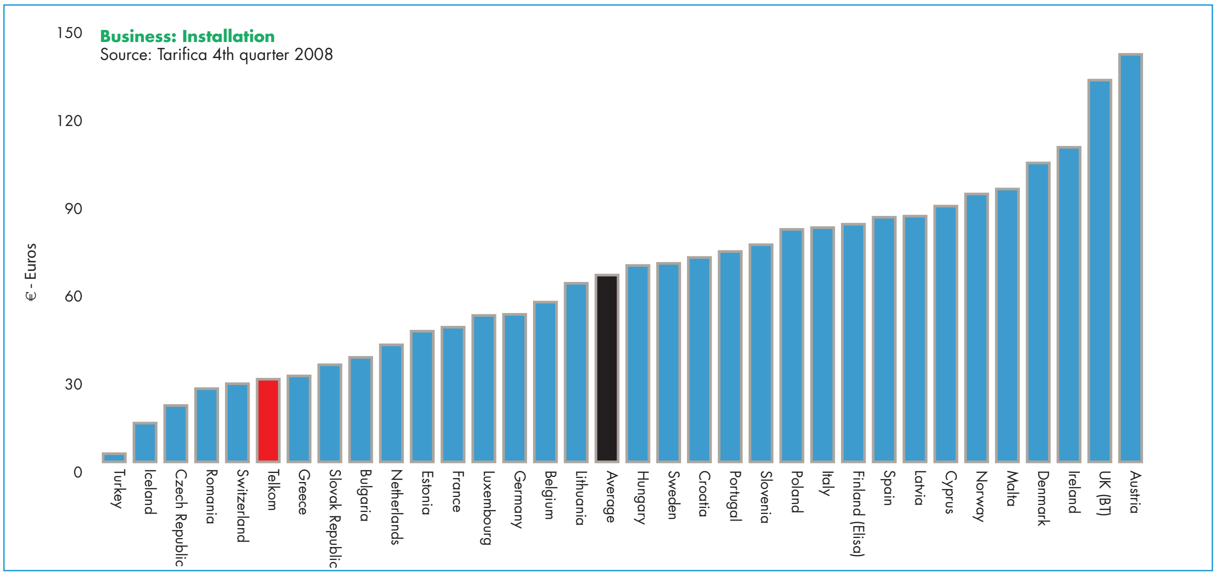


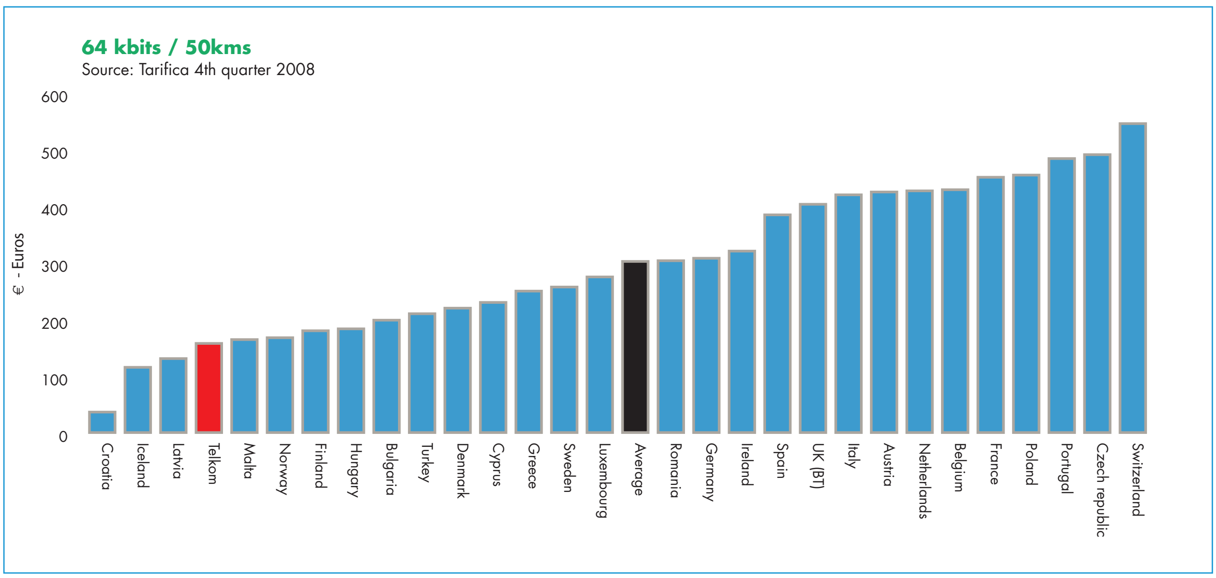




Independent benchmarking of Telkom's pricing – Tarifica review, 4th quarter 2008







Chairman's review

We have strengthened the Board, our structures and processes to ensure Telkom's transformation

Shirley Lue Arnold
Chairman

It is with great regret that we said a final farewell to the former Minister of Communications Dr Ivy Matsepe-Casaburri, who passed away on April 6, 2009. She was a great source of strength to us and we will miss her wise counsel.

The year under review was characterised by the sale of Vodacom, a fast and substantively changing competitive local landscape, and our efforts to grow in other parts of the African continent. To ensure consistent growth in value for our shareholders, among our strategic priorities, my first year in Telkom was to bring stability to the organisation; the second a strengthening of the Board; and the third must embed the ongoing transformation of the new Telkom to defend, grow, and deliver, competitively. While it has been a demanding period for the Telkom Board, we have been preparing for our most challenging year, which lies ahead.

Restructuring Telkom SA Limited

This demands Telkom's organisational structures and operational systems become more responsive, adaptive and much quicker in delivering innovative and quality services. More detail on the strategic priorities and restructuring of the company is provided by Reuben September in his CEO review.

The change is fundamental to our strategy to grow our market share in South Africa and build a strong footprint across the African continent. It is vital to Telkom's survival to continually retire obsolete legacy systems and bureaucracies as we review our performance and restructure to meet our challenges.

The socio-economic environment

This period is marked by the shrinking local economy, growing activism of our shareholders and stakeholders, the socio-economic challenges and new political leadership.

Bold and creative leadership is required to create employment, and intervene in the education, health, housing and security sectors. These socio-economic factors will strain corporations and increase the focus on companies as good corporate citizens. Pressure on the government to further reduce communication costs and widen services to boost the economy and public services will increase. Reporting on sustainability and environment impacts is also being more strongly demanded. Telkom is addressing these issues and our efforts are detailed elsewhere in this report.

The South African Gross Domestic Product (GDP) dropped 1.5% in the six months to March 2009, with the mining, manufacturing and automotive industries being particularly hard hit. In addition, in the first quarter of 2009, formal employment fell by 90,000. The rand remained under pressure with the resultant impact on the economy and we believe that until world markets revive, the overall macro-economic scenario remains parlous.

The regulatory environment

The regulatory environment remains challenging as the telecommunications regulator, ICASA, continues to implement the Electronic Communications Act. Until all the new regulations are promulgated, an element of uncertainty will bedevil all operators. Telkom remains committed to working with ICASA for the greater good of the South African telecommunications industry.

The technological environment

Our fully digital fixed-line network provides service to every major urban area in South Africa, giving Telkom a competitive edge over other communications service providers selling value-added voice and data services. At the end of March 2009, 99.9% of our telephone access lines were connected to digital exchanges.

Our national network operations centre provides our corporate and global customers with managed data networking services and our investment in a third upgrade of the South Atlantic Telecommunications Cable – 3 West African submarine cable/South Africa Far East – has increased fibre optic transmission capability between South Africa and international destinations. Our supply contract for the development of the EASSy submarine cable system will link eight countries from Sudan to South Africa.

The acquisition of satellite bandwidth from Intelsat in the Atlantic and Indian Ocean regions provides services on eight satellites using three satellite operators – Intelsat, SES-Newskies and Hellas Sat.

Progress continues with the roll-out of the Next Generation Network (NGN). The NGN will give us significant advantages over mobile operators through increased ability to carry traffic, provide superior quality services and compete on price.

Changing market dynamics

To counter the continued decrease in voice revenues through the shift to mobile units, we are aggressively expanding our broadband footprint to offer and host higher bandwidth applications such as video services. Our enhanced ADSL offering enables our customers to access a host of broadband value-added services. ADSL subscribers increased by a pleasing 33% over the previous financial year.

Chairman's review *(continued)*

We continue to explore all avenues that will provide us with growth

Our strategic direction, the implementation of Telkom's new structure and the increasing challenges of the competitive and regulatory environment are explained more fully in the Chief Executive Officer's review.

Management continues to identify opportunities for growth, particularly in sub-Saharan Africa.

The Vodacom transaction

The conclusion of the sale of 15% of our shares in Vodacom to Vodafone and the unbundling of the remaining 35% to shareholders after year end allows us to enter the South African mobile market and provide fully converged services. Telkom is now a smaller company which allows us to put more focus on our key growth areas.

The Board

In the year under review, Mark Lamberti resigned on June 3, 2008 and the PIC representative, Athol Rhoda, resigned on July 3, 2008. I would like to thank them both for their commitment and support. Brian Molefe replaced Athol Rhoda as the PIC's representative.

We were pleased to welcome Peter Joubert, director of companies, on August 12, 2008, and David Barber, former Chief Financial Officer of AngloCoal, on September 1, 2008.

The change in our articles of association allowed our new Chief Financial Officer, Peter Nelson, to join the Board on December 8, 2008.

Detailed *curriculum vitae* can be viewed on pages 28 and 29.

Empowerment

While we remain a champion of Broad Based Black Economic Empowerment (BBBEE) with excellent performances in some areas (10 out of 10 for management control and 19.1 out of 20 for preferential procurement), our overall BBBEE status is relatively low – a level 6 contributor at the last verification. A new BBBEE strategy will be implemented to rectify this situation. See page 58.

Confederations Cup and the 2010 Soccer World Cup

A significant accolade for the year under review was being appointed FIFA's main partner for the development of fixed-line network infrastructures for these major sports events. Some R118 million was invested in the necessary equipment and cabling for the soccer stadia around South Africa during the year under review. An additional R832 million is expected to be spent in the 2010 and 2011 financial years. FIFA's president, Sepp Blatter has been most complimentary about Telkom's services (see box alongside). A major spin-off of the project is that all the equipment used will benefit local and other communities.

Appreciation

A special note of appreciation must go the Telkom Board members for their tireless commitment to Telkom under demanding conditions, our employees, and all our customers.

Telkom has remained, through even more difficult times in our history as one of South Africa's leading ICT companies, and the Board and Executive will continue to provide value to our shareholders and service to the country as a strategic national asset.

Shirley Lue Arnold
Chairman

Chief Executive Officer's review

evolve
with the changing trends, meet the demand

Reuben September
Chief Executive Officer

In South Africa, our on-going drive to enhance the Next Generation Network (NGN) continues to deliver benefits and gives us a competitive edge in providing our customers with a full suite of converged Information, Communication and Technology (ICT) services.

The ICT market is never static, characterised as it is by fluidity, change and on-going innovation and those factors aptly summed up the year under review.

Following the sale of Vodacom at what I believe was an exceptional price given the market conditions, and returning substantial capital to our shareholders, and the sale of our 75% stake in Telkom Media to Schenzen Media, we are now poised to compete more aggressively in the telecommunications market. Our defend and grow strategies are on track and, following our restructuring, we are better placed to manage our resources more effectively and efficiently.

Our South African operations remain our core business and cash flow generator and I am pleased to report that we achieved good growth in our bundled calling plan products – Telkom Closer and Supreme Call – and significant growth in our broadband products. We once again achieved double digit growth from our data revenue, up 12.1% to R9.3 billion for the year.

In Africa, our footprint now covers almost the entire continent, with the exception of North Africa, which gives us the opportunity to extend our services to a very fast-growing market. We took our holding in Multi-Links Nigeria up to 100% and, post the year end, we acquired MWEB Africa, including AFSAT, from Naspers.

However, on the debit side, our initiatives in Africa to date have been most challenging, with high start-up costs, unknown and competitive markets, highly volatile currency fluctuations, infrastructure and technology challenges. But, expensive as they were, we have learned our lessons and we are ready to capitalise on the opportunities going forward.

In South Africa, our on-going drive to enhance the Next Generation Network (NGN) continues to deliver significant benefits and gives us a substantial competitive edge in providing our customers with a full suite of converged ICT services. In particular, given the fact that we can now enter the mobile market, the NGN's leading edge technologies will enable us to carry increased traffic, provide superior service and compete on price in a market where quality and efficiency is key.

Financial overview

Our operating revenue from continuing operations grew by 6.9% to R35.9 billion in the year under review. Operating profit from continuing operations declined by 29.6% to R6.4 billion and cash generated from operations before dividends paid fell by 9.6% to R14.8 billion.

The Group EBITDA margin decreased from 39.3% to 32.5% in the year under review, mainly because of an EBITDA loss of R226 million recorded by Multi-Links and higher fixed-line operating expenditure which reduced the fixed-line EBITDA margin to 25.8% as at March 31, 2009 compared to 36.3% as at March 31, 2008. The South African business, however, performed relatively well, and excluding the Multi-Links, Telkom Media and Africa

Online impairments, the fixed-line EBITDA margin would have been 32.3%.

We experienced a 45.9% decrease in headline earnings per share to 557 cents a share and declared an ordinary dividend of 115 cents per share and a special dividend of 260 cents per share, a decrease of 43.2% from the ordinary dividend of 660 cents per share declared in the 2008 financial year. The dividend was paid to shareholders on July 20, 2009.

Total traffic revenue decreased by 3.9% to R15.3 billion, with local traffic revenue decreasing 10.8% to R3.6 billion and long distance revenue decreasing by 9.6% to R2.0 billion, primarily because of the continuing fixed to mobile substitution.

The Telkom Closer packages performed well, growing by 27.6% to 575,812 plans and Supreme call packages, targeted at the business segment, grew by 14.4% to 14,778 packages. Our PC bundles showed a 48.3% growth to 11,336 packages and we continued successfully to tie in large corporate customers to term and volume discount plans.

Annuity revenue streams, excluding line installations, reconnection fees and customer premises equipment sales, grew by 6.8% to R7.4 billion and we will seek to continue to convert revenue streams to annuity revenues, largely through bundling call minutes with access line rental in attractive subscription-based value propositions. Our current line penetration of bundled products is 41.7%. By 2013/14, we are targeting a penetration of 56%.

Broadband and converged services performed very well with a 33% growth in ADSL subscribers to 548,015. There was a 58.1% increase in Do Broadband subscribers to 188,540. Internet all-access subscribers grew to 423,196, an increase of 18.2%.

In line with our strategy of growing our data business, data revenues (including broadband) increased a very pleasing 12.1% to R9.3 billion. Data connectivity revenue increased to R5.0 billion, up 10.9% and internet access revenues increased by 29.6% to R1.5 billion. Our managed network services and VPN revenues were up by 22.3% to R891 million. We intend to continue to exploit the competitive edge our high-quality network gives us in the corporate data market.

Cost management is a key element in creating shareholder value, particularly as competition continues to erode our revenue base. As a result of the vicious inflationary environment; expenses incurred by the Vodacom transaction; an R85 million impairment of Africa Online; the R254 million impairment of Telkom Media and the R1.8 billion impairment of Multi-Links, our fixed-line operating expenses rose by 19.6% to R29.8 billion.

Employee expenses rose to R8 billion, an increase of 8.1%; selling, general and administrative expenses were up 68.8% to R6.6 billion; service fees rose 14.4% to R2.8 billion and payments to other operators increased 9.2% to R7.5 billion, with operating leases decreasing by 1% to R613 million. Depreciation, amortisation, impairment and write-offs increased by 16.8% to R4.4 billion. Headline earnings from continuing operations decreased 45.9% to 557 cents per share for the year ended March 31, 2009. The reduced earnings can be attributed to the significant impairments contained in operating expenses and negative foreign exchange and fair value movements of R1.1 billion resulting from the depreciation of the rand and the naira against the US dollar.

Strategic overview

Our core strategy is to defend and grow profitable revenue, while managing costs. We will aim to differentiate ourselves from competitors by moving from a provider of basic voice and data connectivity to become Africa's preferred information, communications and technology service provider offering fully converged voice, data, video and information technology services.

Defend profitable revenue

Our key objectives are to improve our competitiveness in areas where competition is expected to intensify by use of tariff rebalancing, building customer retention, building customer loyalty and converting revenue streams to annuity revenue.

Pricing is a key element and our tariff rebalancing will focus mainly on the relationship between the actual costs and tariffs of line rentals and traffic so we can compete in a liberalised communications market. We aim to protect our margins and increase the per second billing benefits as part of our bundled packages.

- Differentiating retail list prices from value-based offerings.
  Our quest is to convert customers from usage-based products to adopting calling plans and bundles.
- Value-based calling packages and bundles.
  Our intention is to deliver value to our customers and thus improve retention and loyalty. We will bundle call minutes with access line rental in an attractive subscription-based value proposition to deliver greater value to our customers.
- Converting revenue to annuity-based revenue.
  This will help us offset declining usage-based revenue and boost annuity revenue.
- Rebalancing prices of data services.
  We will pass on the benefits of increased network efficiencies to customers so we can defend our market share and revenue.
- Differentiated attributes of our offerings.
  We will emphasise the offerings that customers value so that we can compete on more than just price.

Build customer retention

We will continue to launch initiatives to attract customers to stay with us and focus on customer centricity through implementing value and needs-based customer

Chief Executive Officer's review *(continued)*

segmentation. Additionally, we will concentrate on fostering long-term relationships with enterprise and wholesale customers through volume and term agreements.

Build customer loyalty

We will continue to position Telkom as the service provider of choice through superior value propositions and constant product and service innovations. We will also upgrade our customer communication programme.

Grow profitable revenue through broadband and converged services

Profitable revenue growth in our broadband and converged services area will be driven by continuing to increase converged services revenue; pursuing partnerships with content providers to enhance our products; aggressively seeking to improve our market share in the information technology services sector and improving our innovation capabilities.

We are in no doubt that the next battleground of the convergence between telecommunications and IT will be in the data management environment. We have one of the finest National Network Operating Centres in the world and we will use it to provide our customers with cost-effective solutions that support their total ICT needs. We expect to stimulate the use of bandwidth over our network through our data centre business.

Several products, including Metro LAN, have been introduced to strengthen our data communications service capabilities and improve our integrated communications service offerings in response to increased demand for higher bandwidth in the corporate and global segment.

Grow profitable revenue through wireless voice and mobile data services

By providing customers with an integrated bundled offering with superior speeds and quality through our fixed-line network, combined with mobility when required, we can grow profitable revenue.

This we can do by transforming our fixed-line business to incorporate services such as mobile converged voice services and by building a wireless voice and mobile data network in areas that use less vulnerable access technologies, which will reduce the theft of copper cables and improve service levels. We will also enter into, among other things, a roaming agreement in the areas where we choose not to build our own network.

To implement this strategy we have obtained access to the 1800MHz and 2100MHz spectrum bands to utilise 2G and 3G technologies in pursuit of our voice and mobile data services. By focusing on higher value customer segments and technologies that enable roaming across networks that use different mobile technologies, we can offer wireless access to, amongst others, campuses, gated communities and security complexes and provide mobile data services and fixed/nomadic voice services.

Our move to offering a fully fledged mobile service depends on the outcome of a market research programme and a roaming agreement we are currently negotiating with the South African mobile operators. At this stage, we will not commit to any capital expenditure before completion of the comprehensive market study.

Grow profitable revenue internationally

Telkom aims to increase revenue and long-term profitability from our African subsidiaries we have acquired and from the international services we provide. We will become a Pan-African integrated service provider that offers international communications and internet connectivity, hosting and managed data services and wireless voice and mobile broadband solutions. We have the opportunity to leverage synergies from Telkom South Africa into our Africa subsidiaries, capitalise on strategic partnerships, for example, with AT&T, and advance data services into a growing market in Africa.

Executing our strategy

We will execute our strategy through the Telkom Renaissance initiative which has been initiated with the objective of transforming us into a leading Pan-African communications company. Delivering on this requires a compelling and focused transformation programme. This programme consists of various initiatives including defending our market share, seeking new revenue and businesses, implementing a structure that enables clear profit and loss accountability, as well as ensuring that our business processes and work practices deliver upon our strategic intent.

This is aimed at achieving certain key financial targets, such as improving our EBITDA by increasing the return on our assets, making effective capital expenditure investments, as well as improving our cash flow. We intend to do this by significantly improving revenue through our strategic initiatives, capturing operating expenditure efficiencies, focusing on expenditure in areas where we can increase our return on assets and critically challenging capital expenditure planned for the next few years.

We embarked on the initiative towards the end of the year under review and our inspirational objective is creating a new Telkom. It is a bold, new journey for the Group and its scope and importance is such that it will roll out over two years. It is a phased and planned programme that will transform our Group's culture and the way we do business. It will ensure full profit and loss accountability throughout the organisation and will enable us to focus on efficient resource management and cost containment. Our financial objective is a 10% reduction in operating expenses by the financial year ending 2011/2012. Currently we are conducting a Group-wide survey to analyse our current culture and give employees the opportunity to provide their views on what our culture should look like. I believe that this is essential if we are to have a firm foundation on which to build the remainder of the process.

Underpinning the programme is the four 'Rs" strategy:

- Remodelling – reaching for new revenue streams in current and new markets.
- Reorganising – fashioning a structure that enables clear profit and loss accountability and focus in a performance-oriented environment.
- Revitalisation – renewing the entire Group and reinforcing a positive 'make it happen' attitude among all our people.
- Re-engineering – ensuring that our business processes, allocation of resources and work practices deliver on our strategic intent.

We are re-building the organisation into a world class team.

Multi-Links

As mentioned earlier in my report, we acquired the remaining 25% of Multi-Links in January 2009 for US$130 million. The company did not perform well in the last financial year with a net loss for the period ending March 31, 2009 of R1.76 billion.

We acknowledge that we under-estimated the competitiveness of the Nigerian market and failed to execute on the building and management of our distribution channels. Turning Multi-Links' performance around is our number one priority, given the extent of our investment and the enormous opportunity the Nigerian market provides. US$100 million has been budgeted for the 2009/10 financial year for the completion of an additional 1,645 km build and 584 km swop of optic fibre cable for the DWDM/SDH network. It is anticipated that the network will connect 80 DWDM/SDH sites, covering all major cities in Nigeria, providing us with additional bandwidth connectivity for voice and data customers. In addition, 227 cell towers are to be erected and another 300 commissioned on third party leased tower infrastructure during the year. Seven new customer service centres are planned to facilitate and support the network growth.

We expect Multi-Links to be EBITDA positive in 2010/11 and to be cash flow positive by 2011/12.

MWEB Africa

Our geographic expansion strategy is geared to establishing us as a regional voice and data player via a range of hosting services, managed solutions, and mobile voice and wireless broadband services. To this end, in addition to Multi-Links, we purchased MWEB Africa and 75% of MWEB Namibia for approximately R498 million. As of March 31, 2009, MWEB Africa had a customer base of 20,175 with operations in Nigeria, Kenya, Tanzania, Uganda, Namibia and Zimbabwe and an agency arrangement in Botswana. This acquisition, together with our investment in Africa Online, gives us the ideal opportunity to service multi-national and corporate customers across Africa, particularly in the data products field, which we believe will deliver enormous future growth. The memorandum of understanding signed with AT&T will further enhance our ability to service multi-national and corporate customers throughout the continent.

Prospects

Telkom's strategy is designed to deliver sustainable, profitable growth going forward and is benchmarked against global best practice. The creation of shareholder value is the underlying driver of every decision made. Telkom's Board of directors and management team believes that the share price has not been reflecting the underlying value of the fixed-line business and they are committed to rectifying this.

Over the next few years, we will be focusing on transforming the business to deal with competition; concentrating on delivering innovative products and services to our customers; expanding our network and bedding down our growth drivers.

We expect that over the next three years, competition will continue to constrain revenue growth and, in a transforming industry like ours, targets are inherently risky, particularly in the later years, and investors should not place undue reliance on such targets. Increased revenues from our data, broadband and converged business and our recently acquired subsidiaries are projected to mitigate the impact of increased competition.

The ordinary dividend of 115 cents per share declared for the 2009 financial year provides the new targeted base established by the Board for the determination of future dividends for Telkom as a stand-alone entity. The level of dividend payments going forward will be based on a number of factors, including the consideration of the financial results, capital and operating expenditure requirements, the Group's debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

Appreciation

As ever, on behalf of the Executive Committee, I extend my sincere gratitude to the Telkom Board of directors for the guidance and insights its members have provided. I must also thank the executive team and all our employees for their dedication and commitment in executing our defend and grow strategies. Thanks also to our customers for their continued and valued support.

Conclusion

In summing up the year I am reminded of something one of our call centre operators in Cape Town said about her job: "You have to take the good with the bad and, overall, the good outweighs the bad." And that was the year under review. Tremendous pressures on all fronts; a lot of angst around the Vodacom deal – externally and internally – the on-going fight against the cable thieves, etc. But then we had the restructuring of the business, a force for good, and the opportunity, via our appointment by FIFA, to design and provision the infrastructure for the Confederations Cup and 2010 Soccer World Cup stadia, to show the world just how good we are. The fact that our diverse customer base includes the majority of the country's large corporates also contributed to the 'good' part of the year.

Telkom is now poised to maximise value for all our shareholders.

Reuben September
Chief Executive Officer

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The roll-out of our mobile network is expected to enable us to provide connectivity cost-effectively

Peter Nelson
Chief Financial Officer

It is my pleasure to present Telkom's financial review for the year ended March 31, 2009. It has been a challenging year and despite difficult economic conditions, Telkom managed to deliver value to shareholders by declaring a special dividend of R19 per share upon conclusion of the Vodacom transaction after year end and declaring an ordinary dividend of R1.15 per share and special dividend of R2.60 per share in June 2009.

Faced with competition eroding our revenue base, cost management continues to be a key element in creating shareholder value. Combined with the inflationary environment affecting our operating expenses, a number of once-off items impacted Group earnings including:

- R691 million cost relating to the Vodacom BEE deal;
- R462 million impairment of Multi-Links;
- R409 million fair value loss on the acquisition of the additional 25% in Multi-Links;
- R204 million foreign exchange loss on the acquisition of Gateway by Vodacom;
- R177 million expenses relating to the Vodacom transaction;
- R39 million impairment of Africa Online; and
- R454 million deferred tax credit on the Vodacom transaction.

In addition, Multi-Links reported a R1.76 billion loss before eliminations during the 2009 financial year. Turning around Multi-Links's performance is vital to Telkom given the extent of the Group's investment and the enormous opportunity the Nigerian market provides.

The roll-out of our mobile network is expected to enable us to provide connectivity in a more cost effective manner in rural and high cable theft areas. Next Generation Network and mobile technology also allows us to replace expensive to maintain legacy equipment. We continue with the renegotiation of all supplier contracts and constructive engagement with labour unions. We are reviewing our IT investment strategy in order to ensure optimum levels of spend in line with our strategy and network investment. Inventories and capital work-in-progress are receiving considerable attention as we seek to lower just-in-time levels of investment and to monetise any excessive levels of assets.

Telkom is targeting an operating cost reduction of 10% over the following three financial years. The Telkom Board is focusing on improving the cost efficiency and free cash flow profile of the Company. It has reduced the initial five year capital expenditure budget by 40% to R34 billion and is targeting lower levels of inventory.

The Telkom Group added Multi-Links as a new segment to its financial reporting for the 2009 financial year. As a result, the Telkom Group's four reporting segments for the 2009 financial year are fixed-line, Multi-Links, mobile and other. The other segment includes Telkom's Trudon, formerly known as TDS Directory Operations, and Africa Online, subsidiaries. The information in this annual report has been updated to reflect the above changes to Telkom's reporting segments. Telkom currently expects its Telkom SA, Telkom International and Telkom Data Centre businesses will constitute distinct reporting segments in the 2010 financial year due to the implementation of its new organisational structure, which became effective as of April 1, 2009.

Telkom concluded the disposal and sale of Vodacom, its mobile segment that provided mobile services through its 50% joint venture interest in Vodacom, effective as of April 20, 2009. In addition, Telkom's Board of directors has decided to dispose of Swiftnet, a wholly owned subsidiary that provides wireless data services, and determined to abandon its Telkom Media subsidiary. The Telkom Group's consolidated financial statements and information included herein reflects the restatement to Telkom's consolidated financial statements in prior years as a result of these events to disclose the effect of discontinued operations and the disposal of the subsidiaries held for sale as follows:

- Income statement data for all the periods have been restated to reflect our 50% share of Vodacom's results, our 100% share of Swiftnet's results and our 75% share of Telkom Media's results as discontinued operations in accordance with IFRS5; and
- Balance sheet data for only the year ended March 31, 2009 reflects our 50% share of Vodacom's results and our 100% share of Swiftnet's results as discontinued operations in accordance with IFRS5.

The discussion of the business below has been revised from previous years to reflect the changes to Telkom's segments and its discontinued operations.

Group operating revenue

Group operating revenue increased by 6.9% to R35,940 million (March 31, 2008: R33,611 million) in the year ended March 31, 2009. Fixed-line operating revenue, before inter-segmental eliminations, increased by 3.3% to R33,659 million due to growth in data revenues, higher revenue from interconnection and subscription-based calling plans, partially offset by lower traffic revenue. Multi-Links's operating revenue increased 124.9% due to a 209.3% growth in its subscriber base.

Telkom's defend and growth strategies are on track. We have achieved good growth in our bundled calling plan products, Telkom Closer and Supreme Call, and strong growth in our broadband products. Data revenue continues to achieve double digit growth, delivering a 12.1% revenue growth to R9,310 million for the year ended March 31, 2009.

Group operating expenses

Group operating expenses increased by 19.5% to R29,895 million (March 31, 2008: R25,014 million) in the year ended March 31, 2009, due to a 19.6% increase in operating expenses in the fixed-line segment to R29,849 million (before inter-segmental eliminations) and a 157.1% increase in operating expenses in Multi-Links to R2,422 million (before inter-segmental eliminations). Fixed-line operating expenses increased due to increased selling, general and administrative expenses, payments to other network operators, depreciation, amortisation, impairment and write-offs, employee expenses and service fees. The increase in Multi-Links's operating expenses was primarily due to increased cost of sales and associated subsidies as a result of increased sales volumes, increased advertising and promotional expenditure and an increase in expatriate fees as a result of an increase in staff seconded from Telkom during the year.

Investment income

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 7.7% to R181 million (March 31, 2008: R168 million), largely as a result of increased short-term deposits and interest rates.

Finance charges and fair value movements

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses on foreign currency denominated transactions and balances. Finance charges and fair value movements increased by 82.7% to R2,843 million (March 31, 2008: R1,556 million) in the year ended March 31, 2009, primarily due to a 12.2% increase in interest expense to R1,732 million (March 31, 2008: R1,543 million) mainly as a result of the 38.7% increase in the Group's net debt to R23,047 million (March 31, 2008: R16,617 million). In addition to the increase in the interest expense, net fair value and foreign exchange rate movements resulted in a loss of R1,111 million for the year ended March 31, 2009 (March 31, 2008: R13 million). The increase in the loss was mainly attributable to foreign exchange losses incurred by Multi-Links on foreign denominated loans and creditors' balances as a result of the devaluation of the Naira as well as the mark to market valuation of the Multi-Links put option.

Taxation

Consolidated taxation expense from continuing operations decreased by 37.3% to R1,660 million (March 31, 2008: R2,647 million) in the year ended March 31, 2009. The consolidated effective taxation rate for the year ended March 31, 2009 was 44.6% (March 31, 2008: 34.5%). Telkom company's effective taxation rate was 8.9% (March 31, 2008: 24.6%). The lower effective taxation rate for Telkom Company in the year ended March 31, 2009 was mainly due to the deferred taxation asset that was raised on the capital gains tax base cost of the 15% investment in Vodacom which is held for sale that will be utilised in the future capital gains tax liability of the sale transaction, partially offset by the R1,843 million

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impairment of the Multi-Links investment, a R254 million impairment of the Telkom Media loan and R85 million impairment of the Africa Online investment at company level.

Profit for the year and earnings per share

Profit attributable to the equity holders of Telkom decreased by 47.7% to R4,170 million (March 31, 2008: R7,975 million) in the year ended March 31, 2009. A major contributor to the decrease was the net loss of R1.76 billion reported by Multi-Links.

Group basic earnings per share from continuing operations decreased 57.7% to 407.4 cents per share (March 31, 2008: 963.7 cents) and Group headline earnings per share from continuing operations decreased by 45.9% to 557.0 cents per share (March 31, 2008: 1,028.9 cents).

Group balance sheet

Net debt, after financial assets and liabilities, including discontinued operations, increased by 38.7% to R23,047 million (March 31, 2008: R16,617 million) resulting in a net debt to EBITDA ratio of 1.2 times from 0.8 times at March 31, 2008. On March 31, 2009, the Group had cash balances of R1,931 million (March 31, 2008: R1,134 million). Net debt, after financial assets and liabilities of continuing operations, was R15,497 million with a net debt to EBITDA ratio of 1.3 times.

Telkom Company issued new local bonds, the TL12 and TL15 with a nominal value of R1,060 million and R1,160 million, respectively as well as syndicated loans with a nominal value of R4,100 million during the year ended March 31, 2009. The Company issued commercial paper bills with a nominal value of R11,025 million for the year ended March 31, 2009 of which commercial paper bills with a nominal value of R9,849 million were repaid by March 31, 2009.

Group cash flow

Cash flows from operating activities increased by 7.8% to R11,432 million (March 31, 2008: R10,603 million), primarily due to a lower dividend paid in respect of the 2008 financial year and lower taxation payments partially offset by higher finance charges. Cash flows utilised in investing activities increased by 20.6% to R17,005 million (March 31, 2008: R14,106 million), primarily due to higher capital expenditure in the Multi-Links and mobile segments and the acquisition of Gateway by Vodacom. Cash flows from financing activities includes loans raised of R18,168 million, partially offset by loans repaid of R10,212 million.

Group capital expenditure

Group capital expenditure, which includes spend on intangible assets, increased by 11.2% to R13,234 million (March 31, 2008: R11,900 million) and represents 36.8% of Group revenue (March 31, 2008: 35.4%).

Fixed-line capital expenditure, which includes spending on intangible assets, decreased by 1.5% to R6,690 million (March 31, 2008: R6,794 million) and represents 19.9% of fixed-line revenue (March 31, 2008: 20.9%). Baseline capital expenditure of R3,343 million (March 31, 2008: R4,039 million) was largely for the deployment of technologies to support the growing data services business (including the ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and residential areas. The continued focus on rehabilitating the access network and increasing the efficiencies and reducing redundancies in the transport network as well as the initiation of the fixed-wireless roll-out contributed to the network evolution and sustainment capital expenditure of R1,488 million (March 31, 2008: R1,369 million).

Telkom continues to focus on its operations support system investment with current emphasis on workforce management, provisioning and fulfilment, assurance and customer care, hardware technology upgrades on the billing platform and performance and service management and property optimisation. During the year ended March 31, 2009, R603 million (March 31, 2008: R841 million) was spent on the implementation of several systems.

Multi-Links's capital expenditure, which includes spending on intangible assets, increased by 112.7% to R2,791 million (March 31, 2008: R1,312 million) and represents 146.9% of Multi-Links's revenue (March 31, 2008: 155.3%) and was due to the continued investment to improve geographic coverage and increase capacity for both the voice and data networks.

Mobile capital expenditure, which includes spending on intangible assets, increased by 3.2% to R3,569 million (March 31, 2008: R3,460 million) and represents 12.9% of mobile revenue (March 31, 2008: 14.4%) and was due to the continued investment to improve geographic coverage and increase capacity for both the voice and data networks.

Other capital expenditure consists of additions to property, plant and equipment and intangible assets for our subsidiaries Trudon (Pty) Ltd, formerly known as TDS Directory Operations, Swiftnet (Pty) Ltd, Africa Online Ltd and Telkom Media (Pty) Ltd. Other capital expenditure decreased to R184 million (March 31, 2008: R334 million) and represents 13.8% of other revenue (March 31, 2008: 29.1%).

Prospects

Telkom's strategy is designed to deliver sustainable, profitable growth going forward and is benchmarked against global best practice. The creation of sustainable shareholder value is the underlying driver of every decision made. Telkom's Board of directors and management team believe in the cost efficiencies and cash flows of the fixed-line business and are committed to addressing this while we invest for growth in new areas of business.

Capital expenditure for the Group is expected to range between 20% and 23% of revenue over the next financial year.

In the long term the targeted net debt to EBITDA ratio is expected to be below 1.4 times. However, in the shorter term, debt levels will be considerably lower given the retention in part of the proceeds from the sale of 15% of Vodacom.

Targets in a transforming industry such as ours are inherently risky, particularly in later years and investors should not place undue reliance on such targets. Our ability to meet such targets is subject to a number of risks and uncertainties and there could be no assurance that we could meet such targets.

The level of dividend going forward will be based on a number of factors including the consideration of the financial results, available growth opportunities, capital and operational requirements, the Group's debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

New York Stock Exchange Listing

Given the current global economic climate and the business imperative for Telkom to reduce its cost base, the Board has decided to delist from the New York Stock Exchange. Maintaining a listing in the United States is expensive and takes considerable management time. The methodology employed and discipline gained from compliance with the Sarbanes-Oxley reporting requirements will be retained, where appropriate, to ensure strict corporate governance compliance and transparent financial reporting.

Telkom is comfortable that the JSE provides sufficient access to capital from both South African and global investors. Telkom intends to maintain a level 1 American Depositary Receipt programme to facilitate over-the-counter trading in the United States of America.

Conclusion

With a year of unprecedented global financial conditions behind us, I certainly look forward to the challenges of the year ahead. The management team is committed to turning the performance of Multi-Links around, reducing operating and capital expenditures and continuing to deliver value to our shareholders. I remain confident in our ability to meet these challenges.

Peter Nelson
Chief Financial Officer

Board of directors

SHIRLEY LUE ARNOLD

Chairman

Shirley Lue Arnold was appointed Chairman and non-executive director on November 1, 2006. Holder of a BA degree and a Certificate in Education, Ms Arnold is a former non-executive director of Peermont Global Limited and Ernst & Young South Africa. Currently she is a member of the Chairpersons Forum, Gordon Institute of Business, the Independent Directors' Initiative and the Institute of Directors in South Africa. She is a trustee of the Thutuka Bursary Fund (SAICA) and the Maths Centre and is a patron of the Student Sponsorship Programme.

REUBEN SEPTEMBER

Chief Executive Officer

With 32 years' experience in the IT and telecommunications industry, Reuben September was appointed acting Chief Executive Officer in April 2007; appointed to the Board in May 2007 and appointed CEO of Telkom in November 2007. He has worked in various engineering and commercial positions at Telkom since 1977, including Managing Executive of Technology and Network Services; Chief Technical Officer and Chief Operating Officer and also served as a director of Vodacom. Mr September has a BSc in electrical and electronic engineering from the University of Cape Town and is a member of the Professional Institute of Engineers of South Africa (ECSA).

PETER NELSON

Chief Financial Officer

Peter Nelson, BComm, BAcc (Honours), CA, was appointed to the Board on December 8, 2008. Previously he was the Chief Financial Officer of Netcare. Mr Nelson has also served at board level for a number of major corporations for the past 20 years, including BMW, Mondi Paper and Pretoria Portland Cement.

Government, independent and PIC representatives

KEITUMETSE MATTHEWS

Government representative

Appointed to the Board in June 2006, Ms Matthews is a businesswoman and former Chief Legal Advisor for the South African Broadcasting Corporation (SABC) and a former special advisor to the Minister of Communications. She has a BA (Hons) degree and is a Barrister-at-Law.

SIBUSISO LUTHULI

Independent

Mr Luthuli, managing director of Ithala Limited since 2004, was appointed to the Telkom Board in July 2005. A qualified chartered accountant (CA), Mr Luthuli holds a BComm degree and a post graduate diploma in accountancy. He is non-executive Chairman of Cipla Medro SA and a member of the KwaZulu-Natal Provincial Government audit committee.

BRAHM DU PLESSIS

Independent

Brahm du Plessis was appointed to the Board in December 2004. A practising advocate at the Johannesburg Bar since 1987, Advocate Du Plessis, who holds BA and LLB degrees from the University of Stellenbosch and an LLM degree from the University of London, is a member of Advocates For Transformation and has served as a member of the Johannesburg Bar Council.

More than 100 years of combined telecommunications experience

DR EKWOW SPIO-GARBRAH

Government representative

Appointed to the Board in September 2007. Dr Spio-Garbrah is the Chief Executive Officer of the London-based Commonwealth Telecom Organisation and Ghana's former Minister of Communication and Education. He holds a BA (Hons), English from the University of Ghana, a Graduate Certificate in International Banking from the New York University; a Graduate Diploma in Journalism and Communication and an MA in International Affairs from Ohio University and an LLD (Honorary Doctorate in Laws) from Middlebury University in the USA.

JACKIE HUNTLEY

Government representative

Ms Huntley who was appointed to the Board in September 2007, is an attorney and senior partner at Mkhabela Huntley Adekeye Inc, one of the major black law firms in South Africa. She has extensive experience in commercial and corporate law, including telecommunications law. She holds BProc and LLB degrees from the University of the Witwatersrand along with a Management Advanced Programme certificate.

DR VICTOR LAWRENCE

Government representative

Dr Lawrence was appointed to the Board in September 2007, holds BSc, MSc and PhD degrees in Electrical and Computer Engineering from the University of London, is the Charles W Bachelor Chair Professor of Electrical and Computer Engineering and Associate Dean for Special Programs at Stevens Institute of Technology.

PETER JOUBERT

Independent

Mr Joubert was appointed to the Board in August 2008. Previously he was the Chief Executive Officer and chairman of Afrox. He has served as the chairman of numerous companies. He is the current Chairman of BDFM Publishers and Sandvik and is a director of SAA and Transnet and external advisor to General Motors SA. He holds a BA degree from Rhodes University, a DPWM from Rhodes and has completed Harvard Business School's Advanced Management Programme.

DAVID BARBER

Independent

Appointed to the Board in September 2008, Mr Barber is the former global Chief Financial Officer of AngloCoal and former Chief Financial Officer for the Anglo American Corporation of South Africa. Mr Barber is a chartered accountant (South Africa) and FCA (England and Wales) and serves as an independent non-executive director and member of the audit committee for Murray & Roberts.

BRIAN MOLEFE

Public Investment Corporation representative

Appointed to the Board in July 2008, Mr Molefe is the Chief Executive Officer of the PIC. A former deputy Director General at the National Treasury and Chief Director: strategic planning in the office of the Premier of Limpopo, Mr Molefe holds a Masters of Business Leadership and BCom degrees from the University of South Africa. He also has a post-graduate Diploma in Economics from London University, School of Oriental and African Studies.

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Chief officers

THAMI MSIMANGO

Chief of Global Operations and Subsidiaries

Mr Msimango was appointed Managing Director of Telkom International on April 15, 2009. Previously he served as Chief of Global Operations and Subsidiaries since November 1, 2007 and Chief Technical Officer from September 2005. He joined Telkom in 1984 and held a number of senior positions, including Managing Executive of Technology and Network Services and Executive Technology, Direction and Integration.

NAAS FOURIE

Chief of Strategy

Mr Fourie was appointed Chief of Strategy in April 2008 having acted in the position from November 2007. He joined Telkom in 1994. He is a former Managing Executive of Commercial Services and Executive of Marketing Services. He holds a BA, BDivinity and BAcc Science (Honours) degrees and has completed the advanced executive programme of the Kellogg School of Business.

CHARLOTTE MOKOENA

Chief of Human Resources

Ms Mokoena, former Group Executive of Human Resources from December 2002 to October 2007, was appointed Chief of Human Resources in November 2007. She holds a BA (Hons) degree in human resources development from the University of Johannesburg; a BSoc Sciences from the University of the North West and a post-graduate diploma in training and performance management from Leicester University in the UK.

OUMA RASETHABA

Chief of Corporate Governance

Appointed Chief Corporate Governance Officer in November 2007, Advocate Rasethaba joined Telkom in 2006 as Group Executive of Regulatory and Public Policy. She is a former special director of Public Prosecutions at the National Prosecuting Authority. She holds a BProc degree from the University of the North, an LLB (Hons) and Higher Diploma in Company Law from the University of the Witwatersrand and an LLM from the University of Pretoria.

Management team

Name	Age at 30 June	Portfolio	Responsibilities	Telkom appointment	Position appointment
Marius Mostert	54	Network Infrastructure Provisioning	Responsible for network technology, strategy, planning, technical product development and all associated network infrastructure deployment.	1973	2007
Casper Kondo Chihaka	48	Network Field Operations	Responsible for customer service fulfilment and assurance network restoration.	1993	2007
Pierre Marais	50	Network Core Operations	Responsible for the technical and operational management associated with Telkom's core network.	1976	2007
Zethembe Khoza	51	Contact Centre Operations	Responsible for managing all contact points in which customers contact Telkom, such as call centres, TelkomDirect shops, commercial services and credit management.	1980	2007
Godfrey Ntoele	48	National Sales and Marketing Operations	Responsible for the national sales and marketing operations for Telkom's retail consumers and business enterprises and direct sales to business customers and government entities.	1997	2007
Bashier Sallie	41	Information Operations	Responsible for enterprise wide IT activities including infrastructure, architecture, applications, support and internet service providers.	1986	2007
Theo Hess	51	Capability Management	Responsible for ensuring that Telkom has the right groups of processes, relationships, assets and resources that enable it to deliver on its strategic objectives.	1996	2007
Amith Maharaj	34	Fixed Mobile Convergence Services	Responsible for the development and implementation of the mobile and fixed-mobile converged business and technical strategy.	2008	2008
Thami Magazi	51	Multi-National Customers	Responsible for national and international sales revenue for multi-national customers and also service and project management to support both national and multi-national sales teams. The portfolio directs Telkom's service delivery obligations for 2010 FIFA Soccer World Cup.	2001	2007
Alphonzo Samuels	43	Wholesale and Marketing Operations	Responsible for national and international wholesale revenue and customer relationship management.	1984	2007

Management team *(continued)*

Name	Age at 30 June	Portfolio	Responsibilities	Telkom appointment	Position appointment
Brenda Kali	55	Corporate Communications	Guided by the company's business plan, vision and brand strategy, the role of Corporate Communication is to influence stakeholder behaviour through effective, timely and measureable communication making use of world-class reputation management solutions.	2008	2008
Mike Mlengana	49	Corporate Development	Responsible for implementing Telkom's international expansion strategy through business development and merger and acquisition activities across Africa and other emerging markets.	1995	2005
Nicola White	37	Investor Relations	Responsible for liaising with the investor community which includes retail shareholders, analysts and institutional investors.	2006	2006
Nicolene Rossouw	40	Performance Centre (Acting)	Responsible for the Performance Centre in support of the company's customer centricity strategy, marketing intelligence and to management the business improvement function.	1997	2007
David Lupafya	36	Strategy (Acting)	Responsible for Telkom Group strategy	2008	2008
Deon Fredericks	48	Accounting Services	Responsible for financial accounting, reporting and analysis, financial services, external and regulatory reporting, capital work in progress and asset management	1993	2008
Robin Coode	43	Corporate Finance, Specialised Services	Overall responsible for taxation, treasury and corporate investment with specific focus areas that include share buy-back evaluations, trustee responsibilities on retirement funds and a merger and acquisition role through strategy.	1992	2008
Stafford Augustine	40	Procurement Services	Responsible for overall management of procurement services encompassing strategic sourcing management of outsourced entities, corporate support and BEE.	2007	2007

Name	Age at 30 June	Portfolio	Responsibilities	Telkom appointment	Position appointment
Mohammed Dukandar	37	Internal Audit	Accountable for developing and implementing internal audit strategies for Telkom Group and its subsidiaries and to ensure proper management of the internal audit function. Ensure that significant risks are understood and managed by management and ensure that significant risks are independently and objectively reviewed periodically.	2009	2009
Anton Klopper	47	Legal Services	Responsible for managing the provision of legal advice and assistance to various business units within Telkom.	1991	2005
Andrew Barendse	42	Regulatory Affairs	Responsible for regulatory affairs which include regulatory strategy and analysis, regulatory compliance, regulatory pricing and costing and protecting Telkom's regulatory rights.	2006	2007
Charmaine Houvet	36	Governance	Responsible for improved governance in the organisation through the design and implementation of the Enterprise Programme office and key company governance process and policies.	1991	2008
Prelene Schmidt	38	CEO Telkom Foundation (Acting)	Responsible for all facets of the Telkom Foundation.	1996	2008

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Sustainability review

The modern corporation must meet the expectations of a diverse range of stakeholders

As one of South Africa's largest corporations, Telkom's public visibility is enormous. Our activities impact on the lives of every South African in one way or another and so our sustainability must be beyond reproach.

As the draft King Report III notes: "Although a company is an economic institution, it remains a corporate citizen and therefore has to balance economic, social and environmental value. The triple bottom line approach enhances the potential of a company to create economic value…"

Telkom has long subscribed to this philosophy and sustainability is a key driver of our business strategy. It is a business opportunity for us, an opportunity we pursue with relentless vigour in all our operations.

Last year we reported that we continue to focus on the transformation of our business and, to this end, in the latter part of the year under review we embarked on a focused internal transformation programme, Telkom Renaissance, a programme geared to ensuring that we become Africa's leading ICT service provider. It is, at least, a two year initiative during which time the Company will completely renew itself in terms of markets, processes, skills, capabilities and a new behaviour. Our goal is to create a high performance company that is capable of executing our 'defend and grow' strategy; a company that is characterised by profitability, sustainability and an ability to realise its vision; a company that is customer-focused with leading edge value solutions, and where the creation of value through excellence is the norm and not the exception.

To date, we have distinguished ourselves as an entity that subscribes to the values of good corporate governance but, we can do better. We can, like the Renaissance Period of the 14th to 16th centuries that our initiative is named after, expand our vision beyond the conventional and traditional, and sustainability is a key focus area in this regard.

Stakeholder engagement

The modern corporation must meet the expectations of a diverse range of stakeholders and, as such, the management of stakeholder relationships is not a nice to have but a critical must.

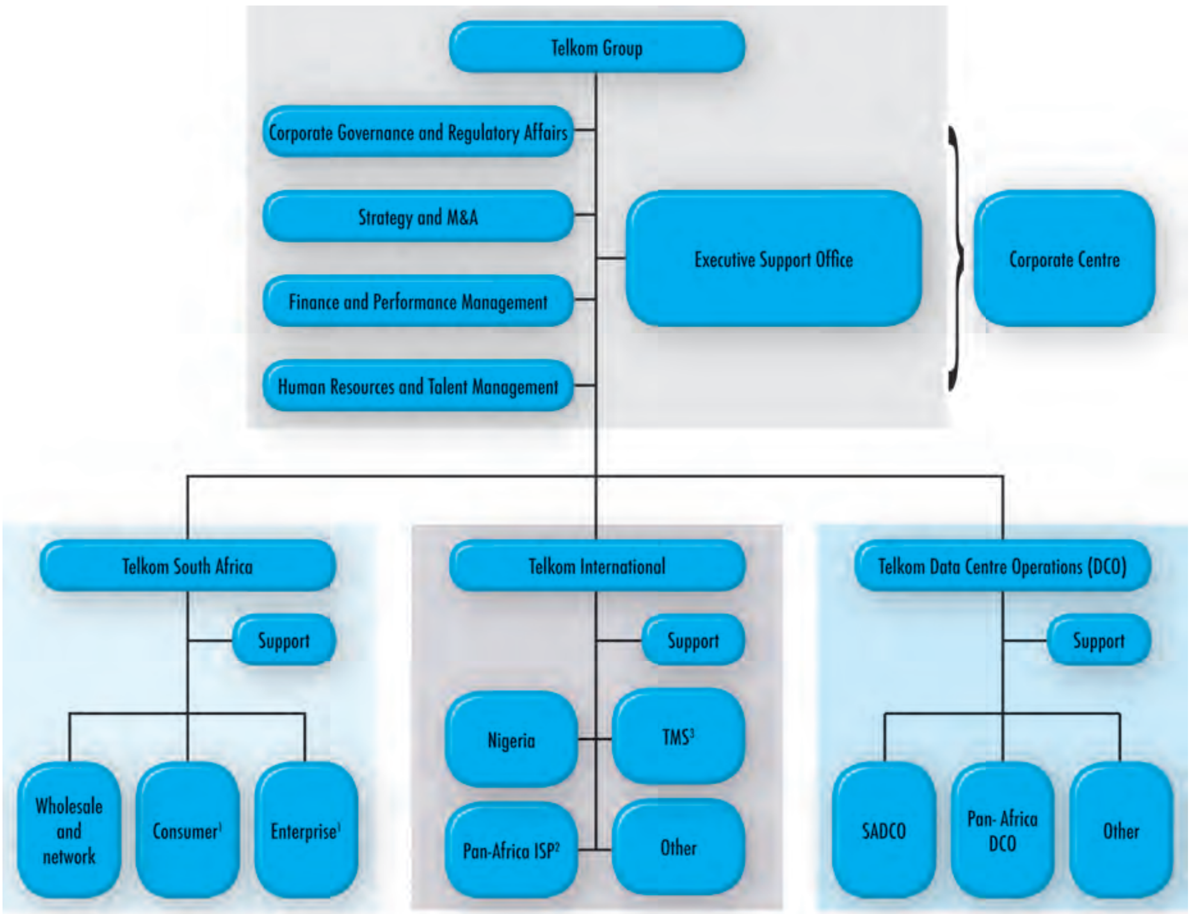
Throughout the year we refined our stakeholder management policy to ensure systematic engagements with:

- Employees
- Customers
- Investors
- Government
- Regulators
- Media
- Suppliers
- Unions
- Civil society

As a result, we achieved:

Employees: A significant improvement in levels of employee engagement over the last three years via briefing sessions, training initiatives and electronic and print communication. In the year under review there was an on-going refinement in promoting a culture of engagement and internal communication channels. Greater prominence was given to face-to-face communication, especially between top leaders and the next management level, as well as electronic communication from the CEO across the company.

As one of South Africa's largest corporations, Telkom's public visibility is enormous



1. SA subsidiaries will be aligned with the business units with the best strategic fit
2. Includes Africa Online and MWEB Africa
3. Telkom Management Services (TMS)

Customers: Through our Customer Centricity project we have seen improvements in customer call centre operations; our ability to keep our promises and the reaction time in identifying and dealing with complaints.

Investors: An improvement in sharing with them our strategic plans, operational performance and financial results through one-on-one briefings; daily consultations; roadshows and the Investor Relations website.

Government: A substantial improvement in our relations with national government as a result of extensive consultations in which emerging issues were pre-empted and promptly dealt with. In addition, our support for the government's Programme of Action, especially in the areas of economic growth, infrastructure development and the provision of telecommunications for public schools, was well received. Our success in engaging with government is evident in the irrevocable support provided by government which resulted in the successful conclusion of the Vodacom transaction.

Regulators: Regular submissions on new regulations and responses to enquiries to, in particular, the Independent Communications Authority of South Africa (ICASA) and total compliance, where technically possible, with all the regulatory requirements in our operational areas.

Media: Media management was conducted in a structured manner guided by three focus areas: reactive engagement, proactive engagement and relationship building.

Suppliers: The top company award in the 2008 Empowerdex Preferential Procurement on overall spend survey.

Unions: We continued to engage with the unions through the Restructuring Forum, a purely consultative body where we share information with union leaders; the Company Forum, the only decision-making structure on issues that require negotiations; the National Employment Equity and Skills Development Forum and Task Teams which consist of both management and union representatives and which deal with specific issues.

Civil society: Traditionally, telecommunications companies and utilities are at the

Sustainability review *(continued)*

Group communication and brand was infused with a renewed sense of purpose

bottom of global reputation studies as they face an uphill battle to communicate with the public. As a result of this, we embarked on a reputation study in May 2008 to measure and analyse attitudes and perceptions about us amongst various stakeholder groups. In the year under review approximately 3,700 interviews were conducted. It was gratifying to note that our reputation improved significantly, albeit from a low base. There was increased recognition in our key areas of products/service; leadership and governance and a significant improvement in the perceptions of our corporate social investment programme.

Going forward

In the 2009/10 financial year we will focus on developing unambiguous stakeholder value statements that detail our promises to our stakeholders and, equally importantly, internal scorecards for us to check how we live up to those promises.

Group communication and brand

Group communication and brand was infused with a renewed sense of purpose following the appointment of one of South Africa's leading communications experts, Brenda Kali, as Group Executive responsible for this function.

Guided by the decision to integrate and align communication processes and practices with Telkom's brand position and values system to ensure greater credibility amongst our stakeholders, we focused on two specifics – the management of stakeholder relationships and reputation, and brand and image management.

• Interfacing with the media

While the media is an influential stakeholder in its own right, it is also a vehicle through which we can communicate to our broader stakeholder base. To this end, a dedicated media unit was established to ensure we sent out a consistent message to enhance our reputation and create greater brand awareness.

On the reactive front, the vast scope of our activities ensured a very high level of media interest in the year under review. Media enquiries ranged from our growth and expansion plans to cable theft, the provision of broadband, regulatory issues, the evolution of the network, our financial results, service delivery, customer complaints and corporate governance.

As a result of our commitment to providing accurate and strategic information to the media, our reputation took a turn for the better.

During the year under review, the value of proactive media engagement was underscored in three areas – the 2010 Soccer World Cup; the sale of our shares in Vodacom and the strategic agreement with AT&T.

2010 World Cup

As FIFA's main partner in the development of fixed-line network infrastructure, we are responsible for providing infrastructure and communication services. Our capabilities in this regard were highlighted through media site visits and face-to-face interviews with the key people in our 2010 project office.

The Vodacom transaction

Throughout the transaction process from November 2008 to June 2009, journalists were given as much access as they requested to our key top management team.

The AT&T agreement

At the announcement of the strategic memorandum of understanding, journalists had the opportunity to spend time with the role players from both companies.

We pride ourselves not only on building strong relationships between the media and our management team, but also on enhancing the media's knowledge of the IT industry as a whole. In the year under review we hosted a number of well attended functions, including inviting key media to the Southern African Telecommunication and Applications conference.

• Connecting with our employees

In addition to refining our internal communication channels, we provided effective and timeous communication to all employees on the progress of our transformation programme, Telkom Renaissance. The programme's specific communication was given a highlighted visual appearance to distinguish it from other electronic communications and to emphasise the status of each message. Weekly messages containing detailed information on the project's progress were issued and a tailor-made web site

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Sustainability review *continued*

To reinforce the visibility of our involvement with the World Cup two giant footballs are being erected on two prominent Johannesburg and Pretoria landmarks

was set up to enable employees to ask questions, make suggestions and receive feedback.

As the torch bearer of the programme, the CEO was highly active in all internal communications via our Skytrain interactive satellite-based network; our digital media services and 'from the desk of the CEO' e-mails.

On a more generic level, a number of initiatives were launched during the reporting period, for example a cross-functional editorial committee for our Online print channel; the opening of a weekly E-news channel and an e-mail based desktop broadcast system.

We also put together a number of face-to-face sessions at top and senior management level where the Group's strategy and business approach was debated.

To ensure greater credibility amongst our stakeholders we focused on two specifics – the management of stakeholder relationships and reputation, and brand and image management.

Partnering with Human Resources

Group communication and brand played a pivotal role in communicating Human Resource initiatives to employees. These ranged from changes in employee benefits to the Renaissance programme. Where necessary, the communications function was supplemented by event management.

Brand and image management

In our view, the brand concept is much more than just logos and products. It also promises an experience and a relationship. As a result, in the year under review, the full spectrum of brand activities was incorporated into the communication function.

Our brand has matured since Telkom was formed in 1991 and, as a result, a process was initiated during the year to rebuild it and create a fresh, innovative look and feel to give us a more modern, vibrant and customer-focused brand.

To support this, a new Vision, Mission and Value (VMV) statement, together with a VMV-wired concept, was developed to ensure that our employees wholeheartedly embrace and accept the brand and, in the process, deliver the brand promise to our customers.

2010 Soccer World Cup sponsorship

To reinforce the visibility of our involvement with the World Cup, two giant footballs are being erected on two prominent Johannesburg and Pretoria landmarks – the Hillbrow and Lukasrand towers. As a further reminder of our commitment and expertise, a number of TV commercials were produced and broadcast.

Artist's impression of the Lukasrand tower

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Corporate governance

The Board takes overall responsibility for the Group and its role is to exercise leadership and judgement in directing it to achieve continued prosperity and to act in the best interests of stakeholders.

Compliance

The Telkom Board subscribes to and is fully committed to sound business principles and practices of integrity and accountability, and values of good corporate governance as espoused in the Code of Corporate Practices and Conduct of King II (the Code). In so doing, the directors recognise the need to conduct the enterprise in accordance with best corporate practices.

The Board is of the view that Telkom complies in all material respects to the principles of the Code. While it acknowledges the importance of good governance, the Board is aware that Telkom does not strictly comply with certain principles set out in the Code. These areas of non-compliance stem mainly from certain provisions in Telkom's articles of association. Most of the areas of non-compliance will be resolved by no later than March 2011, when the provisions of Telkom's articles of association resulting in non-compliance with the Code fall away or earlier if the shareholding of a significant shareholder falls below certain stipulated levels.

Chairman and Board of directors

The Board takes overall responsibility for the company and its role is to exercise leadership and sound judgement in directing it to achieve continued prosperity and to act in the best interests of stakeholders.

Telkom has a unitary Board comprising 12 directors. In accordance with Telkom's articles of association, five non-executives including the Chairman have been appointed by the government of South Africa (the Class A shareholder) and one non-executive appointed by Black Ginger 33 (the Class B shareholder).

There are four other non-executive directors who are appointed at the company's annual general meeting and are considered to be independent, as set out in King II and the JSE Listings Requirements. The executive directors on the Board are the Chief Executive Officer and the Chief Financial Officer. In line with best practice, the roles of the Chairman and Chief Executive Officer have been separated. The Board is led by Ms ST Arnold, the Chairman, while operational management of the Group is the responsibility of Mr RJ September, Chief Executive Officer.

In terms of the articles of association, the non-executive directors appointed by the Class A shareholder have a fixed term of three years and may be re-elected to the Board by those shareholders. The Chairman has a term of one year and is re-elected as Chairman for the ensuing year by the Class A shareholder. The four independent non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years in accordance with the articles of association and JSE Listings Requirements.

The holders of the Class A and B ordinary shares are the government of South Africa and Black Ginger respectively. The only significant shareholder is the Class A shareholder who currently holds 39.8% of the issued ordinary shares in the company. The significant shareholder has certain Board-reserved matters which are detailed in the company's articles of association. Pursuant to the articles of association, whilst the government is a significant shareholder, neither Telkom nor any of its subsidiaries may take action with respect to certain reserved matters unless authorised by the Board. In addition, the authorising resolution of the Board must have received the affirmative vote of at least one of the directors appointed by the government.

The members' resignations and appointments to the Telkom Board of directors during the year under review are as follows:

Resignations

MJ Lamberti	3 June 2008
AG Rhoda	3 July 2008

Appointments

B Molefe	3 July 2008
PG Joubert	12 August 2008
DD Barber	1 September 2008
PG Nelson	8 December 2008

Company Secretary

All directors have access to the advice and services of the Group Company Secretary, who is responsible for ensuring the proper administration of the board and corporate governance procedures. The Group Company Secretary provides guidance to the directors on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities should be discharged.

Details of the secretary's business address and the company's registered office are set out on inside back cover.

Delegation of authority

The ultimate responsibility for the Group's operations rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees which specialise in certain areas of the business. Certain authorities have been delegated to the Chief Executive Officer to manage the day-to-day business affairs of the company. The Group executives assist the Chief Executive Officer in discharging his duties and the duties of the Board when it is not in session. However, in terms of statute and the company's constitution, together with the revised delegation of authority, certain matters are still reserved for Board and/or shareholder approval.

Committees

The Board is assisted in discharging its duties through its committees. During the year under review, the Board merged the Investment and Strategy Committees.

Board meetings

Board meetings are held at least once a quarter. In addition to these meetings, whenever circumstances dictate the necessity, special Board meetings are convened. During the year under review, four scheduled Board meetings were held and 11 additional special Board meetings were convened. Details of attendance by each director including attendance at committee meetings of the Board are set out in the table below. Certain members of senior management attend Board meetings when invited to make presentations on particular company issues of interest to the Board. A majority of directors, one of whom must be a representative of the Class A shareholder, is required for a quorum for Board meetings.

The following table presents the attendance of meetings held during the 2009 financial year by directors:

	Scheduled		Special	
	Number of meetings[1]	Attendance	Number of meetings[1]	Attendance
Non-executive				
ST Arnold (Chairman)	4	4	11	11
DD Barber	3	3	4	4
B du Plessis	4	4	11	11
RJ Huntley	4	4	11	10
PG Joubert	3	2	5	4
MJ Lamberti	0	0	4	3
VB Lawrence	4	4	11	11
PCS Luthuli	4	4	11	9
KST Matthews	4	3	11	10
B Molefe	4	1	6	3
AG Rhoda	0	0	5	4
E Spio-Garbrah	4	4	11	10
Executive				
RJ September	4	4	11	11
PG Nelson	1	1	1	1

[1] The table represents the possible meetings based on the appointment and resignation dates of members.

Executive committee

This committee consists of the two executive directors that serve on the Board of directors and chief executives of the Telkom Group. The Chief Executive Officer is the Chairman of this committee and has the power of authority to, among other things:

- Implement approved business plans, annual budgets and all other matters and issues relating to the achievement of Telkom's obligations under its licences, including without limitations network expansion, equipment procurement, tariff setting and packaging, customer service and marketing; and
- Prepare, review and recommend to the Board the annual budgets and any amendments thereto.

Audit and risk committee (ARC)

The ARC is chaired by Mr PCS Luthuli, a non-executive director; it held four scheduled meetings and six special meetings during the financial year. Mr Luthuli is considered an audit committee financial expert within the meaning of the requirements of the US Securities and Exchange Commission (SEC). He is a chartered accountant.

In terms of its charter, the ARC evaluates the Group's systems of internal and financial control; reviews accounting policies and financial information issued to the public; reviews the performance of the internal and external auditors and determines the fees payable to the external auditors. It also determines and monitors the use of the external auditors for non-audit related

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Board committees specialise in distinctive business areas

services. The committee examines, reviews financial results and recommends same to the Board for approval. A quorum for a meeting is two members.

As at March 31, 2009, the committee comprised four non-executive directors of which three are considered independent:

Mr PCS Luthuli (independent)
Mr RJ Huntley
Mr DD Barber (independent)
Mr PG Joubert (independent)

The new terms of reference of the committee were approved during the year.

At the time of the Chief Financial Officer's appointment on December 8, 2008 the audit and risk committee satisfied itself of the appropriateness of his credentials, professionalism, technical competency and experience.

The audit and risk committee will conduct a similar review on an annual basis as required by the JSE Listings Requirements.

The internal and external auditors have unlimited access to the Chairman of the audit and risk committee.

The audit and risk committee is satisfied that Ernst & Young is independent in accordance with section 270A of the Corporate Laws Amendment Act, and nominated the re-appointment of Ernst & Young as registered auditors for the 2009/2010 financial year.

Nominations committee

The nomination committee, which must have a minimum of three members and is chaired by an independent non-executive director, consists of Mr PCS Luthuli (Chairman), Ms ST Arnold and Mr B du Plessis. A quorum for a meeting is two members.

The committee makes recommendations to the Board on the composition of the Board, and the balance between executive, non-executive and independent non-executive directors with regard to all aspects of diversity and experience.

The committee is responsible for identifying and nominating candidates and formulating succession plans for the approval of the Board.

In addition, the committee recommends to the Board continuation (or not) of services of any director who has reached the retirement age as well as directors who are retiring by rotation, for re-election.

Investment and strategy committee

The investment and strategy committee, consists of Mr DD Barber (Chairman), Dr E Spio-Garbrah, Mr RJ Huntley, Mr RJ September, Mr PG Nelson and Dr VB Lawrence.

The function of the committee is to assist the Board in evaluating investments, corporate actions and key funding and financial proposals.

Human resources review and remuneration committee (HRRRC)

The committee consists entirely of non-executive directors. Mr B du Plessis, an independent non-executive director, was appointed as Chairman of the HRRRC as of June 2008. The HRRRC comprises the following non-executive directors, of which two must be independent:

Mr B du Plessis (Chairman)
Mr PG Joubert (independent)
Ms KST Matthews
Mr E Spio-Garbrah

The HRRRC held four scheduled meetings and one special meeting during the financial year. This committee, in consultation with management, ensures that the Group's directors and senior executives are fairly rewarded for their individual contribution to the Group's performance. In fulfilling its duties, the HRRRC gives consideration to industry and local benchmarks to ensure that remuneration packages remain competitive. Senior executives receive a salary, short-term incentive and an allocation in terms of the rules of the Conditional Share Plan. Medical and retirement benefits are also offered. Remuneration packages are reviewed annually and performance bonuses are linked both to individual performance and to the performance of the Group. Non-executive directors are paid fees for their services as directors of the Company and for their participation as members of the Board committees.

Board effectiveness

An appraisal of the effectiveness of the Board was conducted externally during the year. The appraisal was benchmarked against the strategic requirements of Telkom SA to ensure the capacity to deliver these requirements and strengthen the diversity and sector expertise of directors. The appraisal was positive and its recommendation will be followed through implementation.

Share dealings

In line with JSE Listings Requirements and the Group's insider trading policy, executives who wish to trade in Telkom securities are required to obtain prior written approval from the Chairman of the Board and the Group Company Secretary before dealing in Telkom securities. The Group operates closed periods as defined in the JSE Listings Requirements. Additional closed periods are enforced, when required, in terms of corporate activities as and when these occur.

Compliance with Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 was passed in the United States of America to protect investors by improving the accuracy and reliability of corporate disclosures, accounting practices and corporate governance. Telkom, as a listed company on the New York Stock Exchange (NYSE), registered in terms of the US Securities Exchange Act of 1934, is required to comply with the Sarbanes-Oxley Act. Telkom is committed to good corporate governance practices and compliance with the Act as directed by the US Securities and Exchange Commission (SEC).

Telkom's Sarbanes-Oxley steering committee represents divisions directly impacted by the requirements of the Act. Working closely with line management, a Sarbanes-Oxley compliance team is responsible for ensuring that risks and controls that may impact on the integrity of financial reporting are properly documented, reviewed and reported on. The independent external auditor attested to and reported on management's assessment of the effectiveness of internal control over financial reporting for the year ended March 31, 2009.

The Chief Executive Officer and the Chief Financial Officer (CFO) have certified that the requirements of Section 302 have been met for the year ended March 31, 2009.

In addition to the Sarbanes-Oxley Act, the NYSE corporate governance rules, approved by the SEC, permit NYSE-listed companies that are foreign private issuers, such as Telkom, to follow home-country practices in lieu of the requirements applicable to listed US companies, subject to certain exceptions.

In particular, foreign private issuers must have an audit committee that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended and must disclose the significant ways in which their corporate governance practices differ from those followed by US companies under the NYSE listing standards. In addition, the CEO of a foreign private issuer must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of the NYSE corporate governance standards and foreign private issuers must submit an annual and interim written affirmation to the NYSE with regard to compliance with the foregoing requirements and certain changes to their audit committees.

As a foreign private issuer the definition of independence of directors for Telkom is only relevant to the audit committee and is included in Rule 10A-3 of the US Security Exchange Act. This states that each member of the audit committee must be a member of the Board and should be independent as defined in Rule 10A-3 (b)(1)(ii) of the US Securities Exchange Act. A member of an audit committee of a listed issuer may not, other than in his capacity as a member of the audit committee, the Board, or any other Board committee:

- Accept directly or indirectly any consulting, advisory or other compensation from the listed entity; and
- Be an affiliated person of the listed entity.

An affiliated person of an issuer is a person who directly, or indirectly, through one or more intermediaries, controls, or is controlled by or is under common control with the issuer.

Rule 10A-3(b)(1)(iv)(E) of the US Securities Exchange Act provides an exemption from the prohibition on being an affiliated person of the issuer for an audit committee member of a foreign private issuer, who is a representative or designee of a foreign governmental entity that is an affiliate of the foreign private issuer if the member is not an executive officer of the foreign private issuer.

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Corporate governance *(continued)*

Key differences between NYSE corporate governance listing rules and Telkom practice are:

	NYSE rules	Telkom practice
Board of directors		
Composition	The Board of directors should have a majority of independent directors.	The majority of Telkom's directors are non-executive Four of the 12 directors are considered independent, based on the King II definition of 'independent'. Based on their ordinary shareholding at March 31, 2009 and their holding of the Class A and Class B shares respectively, the government is entitled to appoint five directors to the Board, while Black Ginger is entitled to appoint one director to the Board. King II defines an independent director as a non-executive director who: • Is not a representative of a share owner who has the ability to control or significantly influence management; • Has not been employed by the company or the Group, of which it currently forms part, in any executive capacity for the preceding three financial years; • Is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company or the Group in an executive capacity; • Is not a professional advisor to the company or the Group other than in a director capacity; • Is not a significant supplier to, or customer of the company or Group; • Has not been a significant supplier to, or customer of the company or Group; • Has no significant contractual relationship with the company or Group; and • Is free from any business or other relationship that could be seen to materially interfere with the individual's capacity to act in an independent manner.
Board committees		
Committees required	Companies are required to establish an audit committee, a nominating or corporate governance committee and a compensation committee. Each of these committees must have a written charter that addresses certain matters specified in the NYSE listing standards, including the committee's purpose and responsibilities and an annual performance evaluation of each committee.	Telkom has an ARC, investment, and strategy committee, nominations committee and HRRRC. For the description and composition of these committees and the members refer to pages 43 and 44. Board members who are not appointed by the Class A and B shareholders are appointed by shareholders at the annual general meeting as stipulated in Telkom's articles of association. Telkom does not perform an annual performance evaluation of each committee.

	NYSE rules	Telkom practice
Board committees		
Composition	All of the required committees should be composed entirely of independent non-executive directors.	All the committees have non-executive directors as members. However, not all non-executives are independent.
Audit committee		
Written charter	The audit committee must have a written charter that addresses certain matters specified in the NYSE listing standards, including the committee's purpose, an annual performance evaluation and the duties and responsibilities of the audit committee.	The ARC has a written charter. The responsibilities of the ARC are described in further details, on pages 43 and 44. In addition, Telkom's audit and risk committee charter, as a listed issuer, complies with the Sarbanes-Oxley requirements.
Composition	The audit committee must include a minimum of three members that satisfy the independence requirements of both the NYSE listing standards and the Sarbanes-Oxley Act.	The ARC consists of four non-executive members of Telkom's Board of directors, three of which are independent. Pursuant to the Sarbanes-Oxley Act, each member of Telkom's ARC, as a non-US listed company, is a member of the Board of directors. In addition, although one of the members is appointed by the government, who may be deemed to be affiliated persons of Telkom, such appointments fall within the exception for the SEC independence requirements.
	Each of the members of the audit committee must be financially literate. In addition, at least one member of the audit committee must have accounting or related financial management skills. An audit committee financial expert within the meaning of the SEC rules adopted pursuant to the Sarbanes Oxley Act satisfies this requirement.	For members' work experience refer to pages 28 to 29 under Board of directors. The Chairman of Telkom's ARC, Mr PCS Luthuli, who is a Chartered Accountant, is considered an audit committee financial expert within the meaning of item 16A of the requirements of Form 20-F in terms of the definition in the Sarbanes-Oxley Act. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation any duties, obligations or liabilities that are greater than the duties, obligations or liabilities imposed on such person as a member of the audit committee in the absence of such designation.
Disclosure and Communication		
Corporate governance guidelines	Listed companies are required to adopt, and post on their websites, a set of corporate governance guidelines and the charters of their most important committees, including at least the audit, and, if applicable, compensation and nominating committees. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession, and an annual performance evaluation of the Board of directors.	The corporate governance statement is available on the company's website, www.telkom.co.za/ir.

Corporate governance *(continued)*

Telkom Audit Services (TAS) is an independent and objective assurance and consulting function that focuses on a balance between value protection and value enhancement

Internal controls

Our internal control environment is monitored by the ARC, which:

- Ensures that risks are identified and assessed.
- Ascertains that all systems and processes to prevent and/or mitigate these risks are monitored; and
- Reviews the quality of reporting and adherence to internal policies and other governance best practices.

Our organisational structure facilitates and allows the flow of information upstream, downstream and across all business activities. This is supported by formal mechanisms in place to communicate the responsibilities and expectations of business activities at executive level.

Section 404 of the Sarbanes-Oxley Act requires that companies listed on the NYSE annually evaluate and report on the effectiveness of their controls over financial reporting. We submit progress reports at least quarterly to the ARC which then reports to the Board.

Our internal audit function plays a key role in providing an objective view and continuous assessment of the effectiveness of the internal control systems throughout the Group to both management and the ARC.

Mechanisms are in place that capture and report on identified internal control weaknesses, including processes that ascertain the level at which deficiencies are reported. Significant deficiencies and material weaknesses in internal controls are reported to top management, the Board or the ARC, and the external auditors.

Telkom Audit Services (TAS)

TAS, in accordance with global best practices, is a value-adding, independent and objective assurance and consulting function, designed to add value to, and improve our operations. Its mandate is to provide an independent assessment on the reliability of financial reporting, validate control systems and provide an oversight of management and overall business activities, bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, internal controls and corporate governance processes. In carrying out its mandate, TAS co-ordinates with other control and monitoring functions (enterprise risk management, compliance, security, legal, ethics, environment and external audit).

TAS is required to provide reasonable assurance and to determine whether or not our control processes and systems are adequate and functioning to ensure that:

- Resources and assets are effective and efficiently used and adequately protected;
- Risks are appropriately identified and managed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with policies, standards, procedures, applicable laws and regulations;
- Significant legislative or regulatory issues impacting on us are recognised and addressed appropriately; and
- An assessment is provided regularly of the adequacy and effectiveness of our corporate governance, risk and control processes for controlling our activities and managing our risks.

To ensure the independence of TAS, the Group Executive: Telkom Audit Services reports functionally to the ARC Chairman and administratively to the Chief Financial Officer and has direct access to the Chief Executive Officer. In this context, the ARC oversees processes related to financial risks and internal controls, financial reporting and the monitoring of internal and external auditing processes. In carrying out its duties, the team has unrestricted access to all Telkom functions, records, property and personnel.

The TAS team conducts audit work, or any other task, in accordance with the internal auditing standards set by the globally recognised Institute of Internal Auditing (IIA). This requires compliance with the Standards or Professional Practice of Internal Auditing (SPPIA) and, in particular, the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies and any other corporate governance initiatives. Internal audit practices and activities are also benchmarked independently by an authoritative external party as recommended by the SPPIA and required by the ARC.

The Network Operations Centre (NOC)

Our world-class campus in Centurion, outside Pretoria, enables us to offer our customers an integrated solution to their network requirements. At its heart is the Network Operations Centre (NOC). Developed from the best in world-class practices and centres, it employs the latest technologies and houses high level technical skills and support teams. It offers full network monitoring, fault management, configuration management, accounting management, performance management and security management 24 hours a day, seven days a week.

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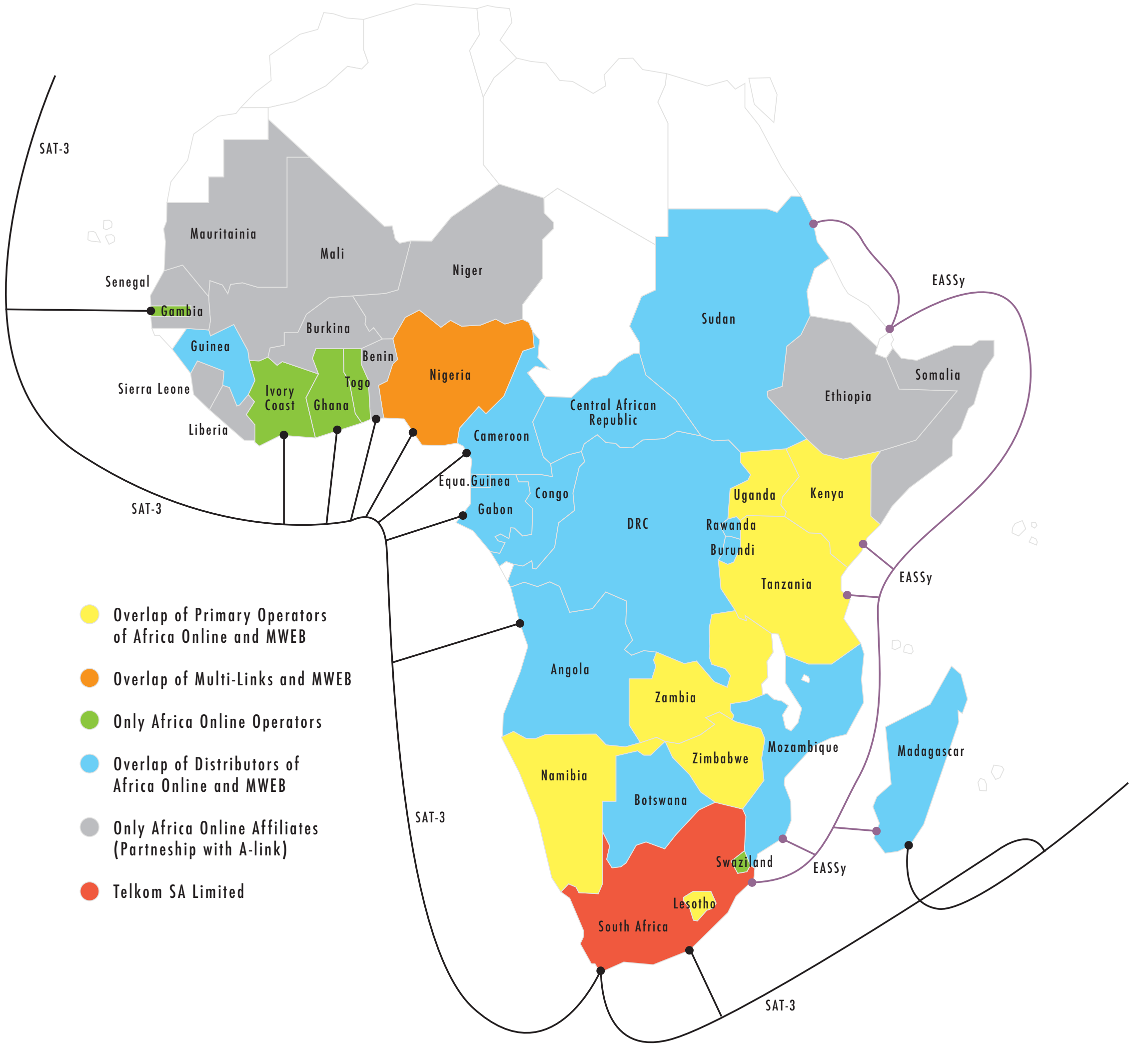
Enterprise risk management

We manage a variety of risks including financial, political, regulatory and technology across the African continent



Our Enterprise Risk Management (ERM) strategy was comprehensively reviewed during the year, in particular the capturing and reviewing of the high risks for the business for the Telkom enterprise risk management committee (TERMC), together with the compilation of an improved TERMC report.

As a result of certain gaps identified by KPMG's risk maturity assessment, the risk management framework, risk policy and procedure deliverables were updated and approved by the Board.

A proposed risk reporting format for the various risk committees was developed to help the audit and risk committee (ARC) monitor ERM's effectiveness across the Group and the Risk Portfolio was monitored on an on-going basis.

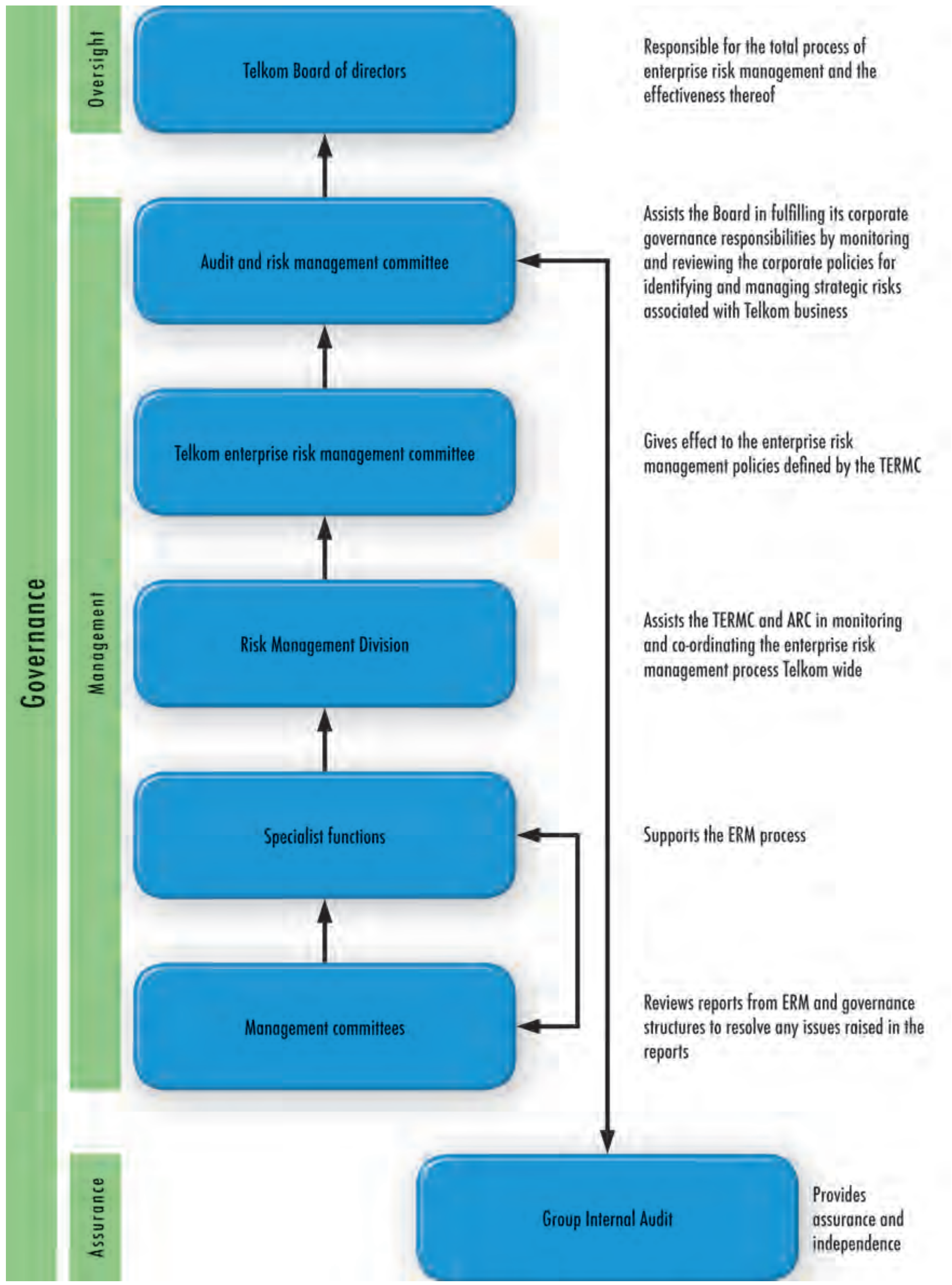
Our various subsidiaries and service organisations completed risk management compliance plans and all Telkom SA policies were endorsed. In addition, all Telkom Group subsidiaries are now covered.

Enterprise risk management governance

We manage a variety of risks including financial; political; regulatory; technology; human capital; operational; safety, health and environment; security; strategic and

Enterprise risk management governance

Enterprise risk management at Telkom is guided and monitored by various committees that have adopted certain principles to assist them in executing their respective enterprise risk management functions. The model below outlines the key enterprise risk management structures, the key role-players and their roles and responsibilities.



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Enterprise risk management *(continued)*

We practice a risk management approach that triggers an informed and dynamic approach

legal, across the African continent. These are identified, measured and monitored through various control mechanisms.

Our Board which sets the risk management standard and risk appetite* for the group is supported by various committees whose responsibilities include:

- Reviewing and recommending to the Board risk management standards, including risk control principles and overall risk measure.
- Reviewing the overall risk appetite and profile of the Group.
- Reviewing significant changes in the risk framework, risk policy and the various procedures that support the risk strategy.
- Reviewing the dashboard of strategic risks that impact on us; and
- Reviewing reports on specific material aspects of our risk governance and risk management processes.

On a daily basis, risks are managed by a number of committees (see chart), mainly through the ARC, which reports to the Board.

**Risk appetite is a framework which we use to measure the 'amount of risk' – on a broad level – which we are prepared to accept in our pursuit of our strategic and financial objectives. As part of our business strategy, it helps management allocate resources across the various service organisations to ensure that objectives are met.*

Responsibility and accountability

- **The Board**

The Board, through the ARC, is responsible for the total risk management process and the formation of its own opinion on the effectiveness of the process. The Board approves the risk strategy in liaison with, and through recommendations of, the ARC.

- **Audit and risk committee (ARC)**

The ARC, which is empowered by the Board, operates within written guidelines established by it. The ARC is responsible for reviewing and monitoring our risk management performance and providing an on-going high level risk assessment to the Board. To ensure it fulfils its responsibilities, the ARC can access any information it needs.

- **Telkom enterprise risk management committee (TERMC)**

This is a dedicated risk management committee appointed by the ARC to implement an effective risk management process that will optimise our risk taking.

- **Group management**

The senior and line management teams of our service organisations are responsible for effective risk management.

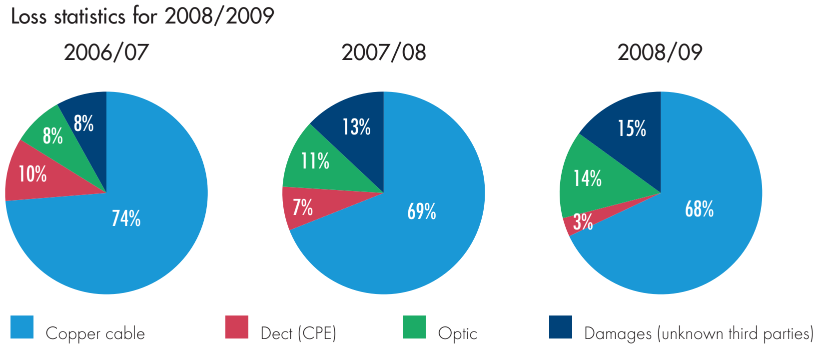
Enterprise risk management framework

Risk is an unavoidable consequence of doing business but, managed correctly, it can be an opportunity for us to operate competitively.

In our quest to be the leading customer and employee-centred ICT solutions service

In the year under review our copper cable losses amounted to R284.9 million excluding outbound revenue losses which is estimated at R907 million.

Loss statistics for 2008/2009



provider, we practice a risk management approach that triggers an informed and dynamic response through the evaluation and management of the many opportunities and threats that permeate our business environment.

Protecting our assets

To minimise, and preferably prevent, fraud, corruption and theft, we have a Telkom Asset and Revenue Protection Services (TARPS) section in place. Its scope includes forensic services, a fraud committee and an anti-fraud policy statement.

Forensic services investigates all fraud-related activities; the committee, which meets continuously, monitors all fraud-related activities and the policy statement implements fraud risk management.

Although no major fraud incidents were reported in the year under review, asset theft losses increased by 27%, mainly as a result of information technology equipment compliance which highlighted past lost/stolen equipment at 'unknown times'.

The Telkom Crime Hotline 0800 124 000

The Hotline 0800 124 000, which takes calls from employees and the public regarding any Telkom-related alleged unethical or criminal activities, was contracted out to an independent administrator on January 1, 2009 in compliance with the Sarbanes-Oxley Act requirements. The administrator does, however, forward all information to TARPS for investigation.

As a result, employee trust in the line has been rejuvenated in terms of anonymity. In addition, our Whistleblower policy was updated to ensure more effective support for the whistleblowing process.

Security services

We continue to use physical and technical security services for physical access control to all our sites and the protection of our assets, and the provision of electronic solutions for all our security needs and requirements.

Statistics

	2006/07	2007/08	**2008/09**
Total incidents reported	9,279	7,954	**7,216**
Total cases investigated	8,863	7,838	**7,116**
Total cases resolved	8,443	6,427	**5,960**
Case types investigated			
TARPS investigations			
Asset theft	1,794	2,026	**2,573**
Burglary	117	141	**196**
Business Code of Ethics	294	293	**265**
Fraud	192	124	**130**
Line management requests	72	27	**15**
Payphones	224	157	**112**
Reputational risk (Refund scam)	594	469	**657**
Robbery	111	159	**244**
Security breaches	57	16	**16**
Vehicle	96	39	**19**
Forensic projects	3	–	**–**
Total TARPS investigations	3,554	3,451	**4,227**
Network Protection Services (NPS) investigations			
Cable	3,399	3,198	**2,018**
Network fraud	786	716	**690**
Solar panel theft	1,124	473	**181**
Total NPS investigations	5,309	4,387	**2,889**
Successes			
Number of arrests	1,250	1,079	**568**
Number of convictions	156	165	**128**

Cable theft has

to affect our operations

Enterprise risk management *(continued)*

The Second Hand Goods Act provides for stiff penalties including imprisonment

Cable statistics

Total cable losses

R millions	2006/07	2007/08	**2008/09**
Copper cable	227.1	194.6	**190.6**
Dect (CPE)	31.8	20.0	**9.2**
Optic fibre	25.7	31.6	**40.0**
Damages	26.1	37.7	**40.8**
Payphone vandalism	15.0	5.8	**4.3**
Total	**325.7**	**289.7**	**284.9**

Cable theft repair costs

R millions	2006/07	2007/08	**2008/09**
Copper	179.5	151.2	**141.2**
Fibre	5.5	7.9	**10.2**
Total	**185.0**	**159.1**	**151.4**

Estimated outbound revenue loss due to cable theft

R millions	2006/07	2007/08	**2008/09**
Outbound revenue[1]	**368.1**	**626.3**	**906.8**

[1] *Estimates based on certain assumptions*

Cable theft

Cable theft has been a problem for the last 10 years and increased at an alarming rate. In the year under review our copper cable losses amounted to R284.9 million excluding outbound revenue losses which is estimated at R907 million.

Our main cable network and open wire routes have been targeted by highly organised syndicates and, on our smaller cable routes, we have seen an increase in petty crime. The key drivers, we believe, are the rising price of copper which, on average, increased by 600% over the last five years, and the strong demand for the metal from international markets, in particular China.

While the problem is not unique to us or, indeed, South Africa, as evidenced by reports from, amongst other countries, Zambia, Tanzania, Kenya, Great Britain and the United States, it is impacting on our performance as the resources used to replace the stolen cable should actually be used to roll out new infrastructure and provide new services.

We have instituted a number our own contingency measures – the investment of millions of rands in security personnel; cable alarms; placing cables underground; replacing manhole covers with lockable lids, closer working relationships with the South African Police Services, Non-Ferrous Theft Combating Committee and Business Against Crime, amongst others – to combat the problem.

In addition, we believe the amended Second Hand Goods Act, whose aim is to regulate the business of dealers in second hand goods in order to combat the trade in stolen goods, will be a valuable tool in the fight against this problem.

The Act provides for stiff penalties, including imprisonment, for convicted metal thieves and scrap metal dealers.

We are also lobbying to have copper declared in the same category as diamonds and for charging cable thieves with 'sabotage' instead of 'theft'.

Telkom Business Continuity Management (BCM)

In 2002 we established the Telkom Business Continuity/Disaster Recovery unit (Telkom BC/DR) which mainly focused on the readiness of our critical sites in case of a disaster or major incident.

In February 2008, we reviewed BC/DRs network-driven focus and re-established the function as an enterprise-wide Business Continuity Management organisation. Its focus areas are to improve all disaster-related activities across the Group, ranging from management to operations and systems.

A key deliverable in the year under review was the re-establishment of our BCM Institutional Capacity which resulted in an improved BCM Governance, Additionally, we reviewed our BCM company policy and charter, the implementation of a BCM training programme – which 32.1% of Telkom managers and senior managers completed – the review of the BCM website and generic BCM awareness on all managerial levels. The establishment and implementation of operational business continuity plans was also a key deliverable.

Going forward

Our key focus areas for the year ahead are:

- Implement, through a phased approach, the revised ERM strategy and align it to an enterprise-wide view of all risks.
- Upgrade our risk management training programme.
- Align corporate governance and ERM to the draft King III code.
- Conduct compliance risk assessments in terms of the agreed framework.
- Present the first critical element in the determination of our risk appetite – the draft Risk Bearing Capacity (RBC) – to TERMC.
- Create an independent division by separating ERM from the ARC, but ensuring that audit is still an integral part of our overall risk management; and
- A significant enhancement of the quality of ERM reporting to the Board, business units and subsidiaries.

We will also continue to improve our communication to internal and external stakeholders through a review and further development of our risk management processes. Our risk management database will also be re-examined to ensure we provide timeous, current, accurate and accessible information to our stakeholders.

Menlyn Park – the flagship of the new generation TelkomDirect stores

Since its opening in December 2008, the TelkomDirect store in Pretoria's up-market Menlyn Park shopping centre has proved to be a huge hit with customers, justifying our faith in launching this 'third generation' store offering to South African consumers.

Open seven days a week from 09:00 to 19:00, the store is one of the 136 we have in major shopping centres across the country.

It provides not only a range of goods from fixed mobile conversions (the phones of the future) to laptops, ADSL units, mobile phones, play stations and satellite navigation units, but also free technical support.

"Basically," says store manager Thobeng Choeu, "we can fix or help with anything that is software-related. No other operator offers this service, making it a unique plus for Telkom."

With its 'touch and feel' ambience, the store is a superb marketing tool for us as it showcases our new technologies and technical expertise. A key customer 'pull' factor is the free doBroadband gaming facilities at the rear of the store. Here youngsters – and adults – can play a range of games to their heart's content.

Says Thobeng: "Because of the tactile experience, many customers end up buying the games and play stations".

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Enterprise risk management *(continued)*

Risk factors

You should carefully consider the risks described below in conjunction with the other information and the consolidated financial statements of the Telkom Group and the related notes included elsewhere in this annual report before making an investment decision with regard to Telkom's ordinary shares or ADSs.

Risks related to our business

- We may be affected by global economic and financial conditions which could cause our growth rates, operating revenue, net profit and dividends to decline.
- Any changes to our mobile strategy or our inability to successfully implement such strategy and organisational changes, could cause our growth rates, operating revenue, net profit and dividends to decline.
- If we are not able to turn around the financial performance of our Multi-Links subsidiary, our Group's financial condition could decline.
- Increased competition in the South African communications market may result in a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline and our churn rates to increase.
- Increased competition in the South African data communications market may adversely impact our growth rates, operating revenue and net profit.
- We may not be successful in implementing our strategy of transforming from basic voice and data connectivity to fully converged solutions offering integrated voice, data, video and internet services and managing costs through our restructuring programme, which could adversely impact our ability to maintain profitability by growing and protecting revenue, while managing costs.
- There are significant political, economic, regulatory, taxation and legal risks associated with our African investments outside of South Africa, which could adversely affect our businesses and cause our financial condition and net income to decline.
- The number of commercially attractive acquisition and investment opportunities for our fixed-line and mobile businesses on the African continent is limited. Moreover, the consummation of acquisitions and investments may be unsuccessful, which could have a material adverse effect on our future growth.
- The growth in the mobile market in South Africa has resulted in an increase in the number of Telkom calls terminating on mobile networks as opposed to our fixed-line network. Telkom's net interconnect margins and net profit could decline if this trend continues.
- If we are not able to continue to improve and maintain our management information and other systems, we could be subject to losses and inaccuracies in our financial reporting, our ability to provide accurate and comprehensive operating information and to compete may be harmed and our share price could decline.
- If we lose key personnel or if we are unable to hire and retain highly qualified employees and partners, our business operations could be disrupted and could impact on our ability to compete successfully.
- If Telkom is not able to successfully grow revenues, profits and cash flows from its existing and new businesses to replace revenues, profits and cash flows previously received from Vodacom, Telkom may not be able to pay dividends and service its debt and could be required to lower or defer capital expenditures, dividends and debt reduction, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.
- We have negative working capital, which may impair our operating and financial flexibility and require us to defer capital expenditures and we may not be able to pay dividends and our operations and financial condition could be adversely affected.
- Continuing rapid changes in technologies could increase competition or require us to make substantial additional investments in technologies and equipment, which could reduce our return on investment and net profit.
- If we continue to experience high rates of theft, vandalism, network fraud, payphone fraud and lost revenue due to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.
- Delays in the development and supply of communications equipment may hinder the deployment of new technologies and services and cause our growth rates and net profit to decline.
- Actual or perceived health risks relating to mobile handsets, base stations and associated equipment and any related publicity or litigation could make it difficult to find attractive sites for base stations and impact our ability to grow our 3G mobile network business, and reduce our customer base, average usage per customer and net profit.

Risks related to Telkom's ownership by the government of South Africa and major shareholders

- Telkom's major shareholders are entitled to appoint the majority of Telkom's directors and exercise control over Telkom's strategic direction and major corporate actions.
- The government of the Republic of South Africa may use its position as shareholder of Telkom and policymaker for, and customer of, the telecommunications industry in a manner that may be favourable to our competitors and unfavourable to us.

Risks related to regulatory and legal matters

- The regulatory environment for the telecommunications industry in South Africa is evolving and regulations addressing a number of significant matters have not yet been made. The interpretation of existing regulations, the adoption of new policies or regulations that are unfavourable to us, or the imposition of additional licence obligations and fees on us, could disrupt our business operations and could cause our net profit and the trading prices of Telkom's ordinary shares and ADSs to decline.

- Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our revenues and net profit.
- Any payments to Telcordia Technologies Incorporated, or Telcordia, in the damages phase of its arbitration proceedings against Telkom, will be required to be funded by Telkom from cash flows or the incurrence of debt, which could have a material adverse effect on its financial condition and results of operations.
- We are parties to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission. If we lose these legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition.
- If we are required to unbundle the local loop, or are unable to negotiate favourable terms and conditions for the provision of interconnection services and facilities leasing services or ICASA finds that we have significant market power or otherwise imposes unfavourable terms and conditions on us, our business operations could be disrupted and our net profit could decline.
- If we are unable to recover the substantial capital and operational costs associated with the implementation of carrier pre-selection and number portability or are unable to implement these requirements in a timely manner, our business operations could be disrupted and our net profit could decline. The implementation of carrier pre-selection and number portability will also likely further increase competition and cause our churn rates to increase.
- The implementation of the Regulation of Interception of Communications and Provisions of Communication-Related Information Act, or RICA, could be costly and may negatively impact the ability of Telkom to register customers and may require us to disconnect existing customers, causing our penetration rates, growth rates, revenue and net profit to decline.
- If Telkom is required to comply with the provisions of the South African Public Finance Management Act, 1 of 1999, or PFMA, and the provisions of the South African Public Audit Act of 2004, or PAA, Telkom could incur increased expenses and its net profit could decline and compliance with the PFMA and PAA could result in the delisting of Telkom's ordinary shares from the JSE.
- Our total property taxation expense could increase significantly and our net profit could decline as a result of the enactment of the South African Local Government: Municipal Property Rates Act, 6 of 2004.

Risks related to the Republic of South Africa

- Fluctuations in the value of the rand and inflation rates in South Africa could have a significant impact on the amount of Telkom's dividends, the trading prices of Telkom's ordinary shares and ADSs, our operating revenue, operating expenses, net profit, capital expenditures and on the comparability of our results between financial periods.
- The levels of unemployment, poverty and crime in South Africa may cause the size of the South African communications market and our growth rates, operating revenue and net profit, as well as the trading prices of Telkom's ordinary shares and ADSs, to decline.
- Should the country continue to experience high occurrences of power outages, Telkom's operational capacity, expenses and revenues will be affected and its operating revenue and net profit could decline.
- The high rates of HIV infection in South Africa could cause the size of the South African communications market and our growth rates, operating revenue and net profit to decline.
- Significant labour disputes, work stoppages, increased employee expenses as a result of collective bargaining and the cost of compliance with South African labour laws could limit our operating flexibility and disrupt our fixed-line business operations and reduce our net profit.
- South African exchange control restrictions could hinder our ability to make foreign investments and procure foreign denominated financing.

Risks related to ownership of Telkom's ordinary shares and ADSs

- The future sale of a substantial number of Telkom's ordinary shares or ADSs could cause the trading prices of Telkom's ordinary shares and ADSs to decline.
- Your rights as a shareholder are governed by South African law, which differs in material respects from the rights of shareholders under the laws of other jurisdictions.
- It may not be possible for you to effect service of legal process, enforce judgments of courts outside of South Africa or bring actions based on securities laws of jurisdictions other than South Africa against Telkom or against members of its Board.
- Your ability to sell a substantial number of ordinary shares and ADSs may be restricted by the limited liquidity of ordinary shares.

Group overview
Management review
Sustainability review
Performance review
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Company Financial Information

Black economic empowerment

We constantly strive to maintain our momentum in terms of implementing our BBBEE transformation pillars

In the year under review, we continued to make a significant contribution towards the achievement of the objectives of our government's Broad-Based Black Economic Empowerment (BBBEE) policies and the transformation of the Information and Communications Technology (ICT) sector.

One of our strategic goals is to become one of South Africa's leading empowered companies. Our BBBEE Strategy and Implementation Roadmap, which are the enablers to achieve the objectives of our 2010 Strategic Plan, have both been approved by the Board.

Our BBBEE self-assessment has revealed a number of highlights.

- In ownership, a series of landmark transactions – the sale of 15% of our shares in Vodacom, the declaration of a special dividend and the listing and unbundling of Vodacom shares – unlocked value for our shareholders, the majority of whom are public entities and black shareholders.
- In management control, we were ranked the second most empowered company on the JSE Securities Exchange by the *Financial Mail Top Companies Survey*. This ranking reflected the total transformation of our Board and top management structures to significantly exceed government's targets for this element of BBBEE.
- In preferential procurement, we were again ranked one of the best performers on the JSE Securities Exchange by the *Financial Mail Top Empowerment Companies Survey*. Our Preferential Procurement is recognised as a champion in driving economic transformation among JSE Listed companies, state-owned enterprises and within the ICT sector. During the past financial year, we procured goods and services worth R4.1 billion from black-owned companies, equivalent to 33.2% of total measured procurement spend. This figure exceeds the 15% target in the BEE Codes by a significant margin. BEE recognised procurement spend from all suppliers was R8.8 billion, equivalent to 70.4% of total measured procurement spend. Again, this figure significantly exceeds the 50% target in the BEE Codes. BEE recognised procurement spend from Qualifying Small Enterprises (QSEs) and Exempted Micro-Enterprises (EMEs) declined slightly as many of our small suppliers graduated to become large enterprises measured under the Generic Scorecard of the BEE Codes of Good Practice.

In this regard, we have a dual BEE evaluation policy that considers both the DTI scorecard (broad-based BEE evaluation criteria) and levels of black ownership (narrow-based BEE criteria) when making procurement decisions. This policy is in line with best practices in the South African economy. Our preferential procurement policy also seeks to move beyond BBBEE compliance and achieve other qualitative and industrial policy objectives such as reducing our dependence on international resources, the development of domestic technology production capabilities and the creation of sustainable black-owned ICT companies. Although our preferential procurement policy is perceived to be stringent, the majority of our large suppliers, many of them multi-national companies, have set up local operations, sold equity to black shareholders and developed BBBEE Commitment Plans that are in line with our policy.

BBBEE element	Target	2007/08	**2008/09**
BBBEE procurement spend from all suppliers	50%	55%	**70.4%**
BBBEE procurement spend from qualifying small enterprises or exempted micro-enterprises	10%	6.7%	**5.1%**
BBBEE procurement from black-owned suppliers	9%	23.4%	**33.2%**
BBBEE procurement from black women-owned suppliers	6%	6.3%	**4.8%**

There was a major improvement in our BBBEE suppliers spend

Over the past decade, we have made a major contribution towards the economic transformation of our sector by awarding large contracts worth tens of billions of rands that facilitated the creation of sustainable black-owned ICT companies.

Through Procurement's intervention, we have managed to persuade multi-nationals to partner with local BEE companies. These partnerships will provide black-owned companies with the opportunity to upgrade their skills and other capabilities. During the next phase, they will be in a position to develop their own independent brands, products and services that can be marketed in South Africa and the rest of the world.

Thank you Telkom for having faith in me, says Maletsati

Tracking the health of its employees is critical for Telkom as, not only is it a legal requirement but it's the right thing to do in a company whose employees are subjected to various levels of stress in their daily lives.

In line with our commitment to sourcing BBBEE suppliers, we regularly put out tenders for the outsourcing of various activities and, in 2002, a tender for occupational health testing was awarded to a small company, Maletsati Occupational Health.

Initially the company, owned and run by Maletsati Mosweu, worked in the Gauteng region, providing an in-house clinic service from the Telkom Centre For Learning in Johannesburg. We were so impressed with the service and attention to detail that in 2004 we offered Maletsati a national

We have various programmes in place to attract and retain black employees, particularly women. A total of 87% of new appointments in 2009 were black, bringing overall representation in the workforce to 62%.

Black economic empowerment *continued*

We have developed progressive employment equity targets

How BBBEE works

On February 9, 2007, the Department of Trade and Industry (DTI) released its Broad Based Black Economic Empowerment (BBBEE) Codes of Good Practice (the Codes), a framework to guide government departments in the implementation of BBBEE.

The Codes have a generic scorecard (the Scorecard) with seven elements:

- Ownership (20 points)
- Management control (10 points)
- Employment equity (15 points)
- Skills development (15 points)
- Preferential procurement (20 points)
- Enterprise development (15 points)
- Socio-economic development (5 points).

The elements in turn have indicators, each of which has its own weightings, measurement principles and compliance targets.

Based on its scorecard performance, a business/enterprise is awarded a BEE Status and Recognition Level. The highest BEE Status is Level 1. This is awarded to an enterprise which scores more than 100 points and gives it a BEE recognition level of 135%. Effectively an enterprise purchasing goods and services from a Level 1 supplier can recognise 135% of the procurement on its own scorecard.

The lowest BEE Status is Level 8, which is awarded to an enterprise with a score of between 30 and 40 points. This equates to a BEE recognition level of 10%.

An enterprise that scores less than 30 is a non-compliant BEE contributor with a BEE recognition level of 0%.

contract for our five regions, creating additional jobs in the process as she had to set up satellite offices.

Maletsati, who says she is eternally grateful to Telkom for the faith shown in her and her colleagues, tests up to 2,000 employees a year, screening them for ailments such as diabetes, blood pressure, impaired vision and hearing.

"Telkom has been my springboard. It has allowed me to pace myself to the point where I am now ready to take on other jobs and, at the same time, intensify my commitment to the community through the company's support for, amongst others, the Society For the Blind, mentoring newly qualified nurses and helping some children through school. Telkom has taught me that supporting the smaller people pays dividends all round," says Maletsati.

- We have developed aggressive employment equity targets to address the challenges we face in terms of increasing the diversity of our workforce, especially the representation of black women and black disabled people in the middle and senior management levels of the organisation. We have put a Human Capital and Diversity Strategy in place to ensure that our workforce reflects South African demographics in terms of race, gender and disability. We also have various programmes in place, including a dedicated talent management division, to attract and retain black employees, especially black women. A total of 87% of new appointments in 2009 were black, bringing overall black representation in the workforce to 62%. The proportion of disabled employees has risen from 0.93% in 2007 to 1.13% in 2009. We continue to drive various initiatives across the organisation to ensure that our policies and guidelines attract and support the recruitment of people with disabilities and to encourage the disclosure of current employees with disabilities.
- As part of our commitment towards Enterprise Development, more than 100 black-owned companies are now beneficiaries of a new short-term

payment policy that facilitates the settlement of invoices in less than 15 days. Other initiatives include training provided by senior staff members within procurement to enable suppliers to comply with quality standards and the training provided to suppliers at the Telkom Centre for Learning. Khayelihle Projects, which was assisted to develop and implement PCR, an abridged ISO 9000 of 2000 quality system, is one of many beneficiaries of Telkom's Enterprise Development. Management has been working hard at identifying various sustainable initiatives in this area to improve on current enterprise development contributions. Many of the identified initiatives have been approved by the Company's top management and are in the process of being implemented.

- We recognise that we have a critical role to play in transforming communities and in ensuring that they are sustainable.

Our Telkom Foundation is a key driver in this regard and its activities are detailed on pages 78 to 80.

Guma – smart by name and nature

Success stories include Guma Smart Card. This black-owned company has grown from small beginnings to become a world-class manufacturer of smart cards that has replaced imports with local production and employment and developed lucrative export markets. Guma recently produced its 100 millionth smart card.

"Today Guma is a role model black company with ownership of Gijima AST, Tourvest, etc. employing over 10,000 value-adding employees including those in our overseas offices like Australia, Canada, America, etc. Thanks to Telkom for having put faith in us as a small company with big dreams. This year we achieved 100 million Telkom phonecards manufactured locally and delivered by Guma Smart Card. Through Telkom's vigorous support and commitment to quality, Guma Smart Card attained ISO 9001 certification over six years ago. Without Telkom's commitment to BEE, the success we have achieved thus far would not have been possible. Thanks to Telkom management for staying true to the spirit of empowerment," says Robert Matana Gumede, Chairman: Guma Group and Gijima AST.

Human capital management

The past year's performance has given us a platform to critically identify and prioritise interventions

We have developed progressive employment equity targets to address the challenges we face in terms of the diversity of our work force.

Introduction

The labour dynamics in the global and local integrated communications technology (ICT) industry have been impacted by the rapid pace of change in the industry, and by the changes in the sector-specific and broader economies. These events have led to a marked change in the labour supply and skills retention patterns in recent years.

This complex and evolving environment has tested our ability to provide a continuous supply of skills to ensure we achieve our strategy of growing our business and delivering shareholder value.

The year under review's performance has given us a platform to critically identify and prioritise interventions and test our progress in this regard.

Our workforce

We currently have 23,520 full-time employees, 5.5% less than the previous year, with the majority (68%) in operational and support roles; a further 21% in supervisory roles and 11% in managerial positions.

The proportional distribution of our people largely corresponds with our existing and potential customer base.

Staffing and staff exits

In line with the changing labour dynamics of the industry, our natural attrition (employees who resigned and were not replaced) rate rose to 9% (7% in the previous year) and resignations rose to 8% (6% in 2007/08). This , however, is still in line with the South African industry norm.

Headcount movement

	2006	2007	2008	2009(**)
Opening balance	**28,972**	**25,575**	**25,864**	**24,879**
Employee gains	**706**	**1,512**	**918**	**1,047**
Appointments	686	1,486	891	1,034
Re-instatement	20	26	27	13
Employee losses	**4,103**	**1,223**	**1,903**	**2,406**
Employee retrenchments	2,990	20	4	10
Voluntary early retirement	674	7	2	5
Voluntary severance	2,295	13	2	5
Involuntary reductions	21	0	0	0
Natural attrition	1,113	1,203	1,899	2,396
Closing balance	**25,575**	**25,864**	**24,879**	**23,520**
Other employees*	4,227	5,807	3,801	4,307

* *Other employees refer to contract and temporary employees but exclude Board members, learnerships and bursary students.*
** *Employee retrenchments for 2009 were employee initiated.*

Compensation and benefits

- **Remuneration**

While the fixed, or guaranteed, remuneration packages are reviewed each year, in certain critical skills areas, depending on the supply and demand of those skills in the market, there are ad hoc reviews to ensure we remain competitive.

- **Non-executive directors**

The directors, on recommendation of the human resources review and remuneration committee, determine the fees of non-executive directors who do not participate in the incentive scheme for top management. These fees are set out on Page • and in Note • in the consolidated annual financial statements.

- **Executive remuneration**

Fixed remuneration is currently set at the market median and independent remuneration consultants advise the Board's remuneration committee on executive management packages.

Guaranteed packages are influenced by the scope of each individual's role, knowledge, skills and experience. These are reviewed each year as part of our overall remuneration review process and they are assessed against individual performance.

The difference between the upper quartile and the market median for guaranteed packages is used when calculating incentives for top management.

- **Other employees**

Salary increases for all employees – management and bargaining unit – are approved by the Board. Non-management employees are paid in terms of the negotiated agreements with the relevant unions.

- **Short-term incentive plan**

There is an incentive scheme for our management based on a balanced set of measures determined by the Board. The measures consist of financial and key performance driven targets, based on the approved business plan. All other employees participate in an incentive scheme with different measures applied at the lower levels.

In the top management scheme, the financial driver accounts for 45% of the total award, and this is measured by the basic earning per share, return on assets (ROA) and the defend and grow revenues strategy. Performance drivers (customer satisfaction and organisational renewal components) account for 35% and 20% is allocated for individual performance.

- **Long-term incentive plan**

All employees receive conditional shares, subject to their individual performance for each year preceding the allocation. The allocation is based on the average share price 10 days before the award date of June 1 each year, using a percentage of the employees' total package. Our employees have no right or title to the shares and cannot receive dividends until the shares have vested. The shares will only vest if we meet our annual financial targets which are set out in the relevant team award plan, and employees must remain in continuous employment. The Company will introduce a new share scheme subject to shareholders' approval.

- **The Telkom Pension Fund and Retirement Fund**

The old Pension Fund, only had 123 members and the Telkom Retirement Fund had 23,389 members at March 31, 2009 and both are financially sound.

Performance management

The performance management system has been enhanced to ensure that our leadership is measured on the right criteria to drive behaviours that will ensure we continuously improve on the value we obtain from our employees. A five point assessment scale has been introduced that ranges from 'consistently exceeds job requirements' to 'consistently does not meet job requirements' to distinguish those who do from those who do not.

Human capital management *(continued)*

In the past year we focused on building the necessary current and future competencies

Reward and recognition

Our 'Name In Lights' programme that recognises outstanding achievement by employees or teams who go the extra mile is one of the yardsticks that distinguishes our business from others.

Our Gold Award team award for 2007/2008 went to Daniel Fourie, Alan Gould, Kevin Burns, Deon Minnie and Willie Engelbrecht, for developing a software application that created a service view for the DSLAM. This application has enabled us to determine within minutes whether a DSLAM has been affected by a major failure. It also provides us with valuable information for special investigation sections as it identifies problematic networks for future investigations.

Daniel also won the CEO Award.

Training and development

In the past year we focused on building the necessary current and future competencies through training programmes in:

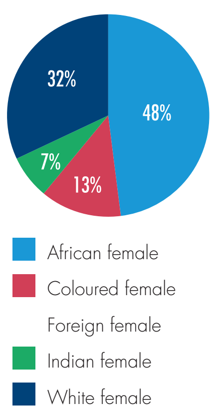
- Customer Service Academy (marketing, sales, call/contact centre and customer service competencies).
- Leadership and management development (enterprise leadership, general management, frontline leadership and business development competencies), and
- Technical training (product knowledge, technical service, ICT infrastructure, IT solutions and technology and innovation management competencies).

The bulk of the training (64%) was through the classroom-based Centre For Learning (CFL) with the balance conducted via the virtual (PC-based) campus interactive satellite-based facility, Skytrain.

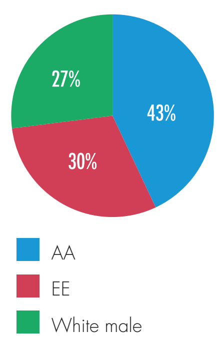
Telkom invested R300 million in employee training and development in the year under review (2008: R283 million). At CFL, 12,271 employees (7,796 black candidates and 3,641 women) were trained.

The CFL, which conducts most of its training in-house, spent R35.0 million with external vendors in the key areas of technical and IT, management, marketing and Safety, Health and Environment (SHE).

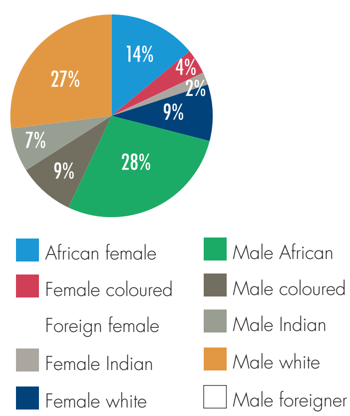
EE training 2008–2009



AA and EE as a % of total trained



EE/AA 2008–2009



- **Accelerated development of women, blacks and young talent**

In the year under review, 257 employees (50% female and 70% black) were trained in value management and technology management.

Some 18 graduates from the ICT GMP obtained their MSc degrees in technology and innovation management. Of these, seven were women and 11 were black.

- **Technical training**

Approximately 2,883 field technicians were trained in IP telephony and the installation and maintenance of ADSL and, to date, more than 3,300 students have been trained on IP-related offerings, including LAN technologies, router installation and maintenance programmes.

- **Network and IT training**

Some 350 ICT diploma and degree graduates and 400 diploma students were exposed to the industry via theoretical and field training. This resulted in the creation of various talent pools including specific functional skills needed by line management; IP skills and field operations.

- **Other training**

The CFL trained 200 candidates in 22 events relating to IO driven Telkom OSS/BSS projects and an additional 240 people were trained in infrastructure and product/service training on emerging technologies. Some 111 employees received IT certification with 1,823 attending IT short courses and 154 attending IBM Tivoli Netcool training.

Jobs Initiative on Priority Skills Acquisition (JIPSA)

This is a government initiative aimed at addressing the skills shortage in certain areas in South Africa and, to date, 1,138 unemployed ICT graduates have participated in internship programmes. Of these, we appointed 644 (75% of total industry appointments). In addition, 40 unemployed female ICT graduates were trained and completed advanced Internet Protocol Networking/Solutions development and we offered 22 (55%) of them full-time employment.

Leadership and management development programmes

During the year under review:

- 22 employees completed the Implementing Strategy and Managing Performance programme.
- 33 employees from the top leadership team enrolled for the Telkom Global Leadership Development programme.

Tyron – a fine example of our development programme

Tyron Truter, manager of the Cape Town Electronic Business Support Centre (ESBC), is a 20 year Telkom veteran who has worked his way up from being an 'appie' in the Mitchell's Plan branch of the old Posts and Telecommunications department in 1989, to where he is today.

He has worked all over the Western Cape, run call centres on the West Rand of Gauteng and Pretoria and returned to Cape Town in January 2009 to take over the ESBC.

"This job is what you make of it and I'm having a lot of fun. I'm not a military style manager, I like to get down and dirty with my team to ensure we deliver on our key performance indicators (KPIs). Our customers make us responsible for everything so we have to keep them happy. South Africans, in the main, are not techno savvy so it's up to us to help them set up their systems. Also, a lot of people don't realise that we support all users from MNet to ourselves and we provide a value-added service to them all."

Human capital management *(continued)*

We remain committed to continuous engagement with the unions

- 40 employees were nominated for the NGN Professional programme.
- 100 employees have graduated to date from the Advanced Operations Management Development programme (AOMDP).
- 81 employees attended the Gordon Institute of Business Science (GIBS) programme in managing the customer relationship (PMCR), and
- 453 employees have been trained in the Next Generation Network (NGN) Essentials programme.

Employee engagement

Two developments stand out in the year under review:

- There has been a marked improvement in our relationship with the unions, and
- There is the emerging phenomenon of managerial employees joining trade unions.

The former is, we believe, because of our deliberate action in 2007 to invest in rebuilding the relationship between ourselves and the unions following 2006's industrial action. While the suspicions are still there, the propensity to engage in confrontational conduct has diminished. There is also some semblance of shared vision and a willingness to co-operate.

Although the latter increase is not material it is, nevertheless, a worrying development, albeit one that is within our control if we are prepared to change the way we relate to these employees.

Two factors are involved here – a feeling of abandonment of junior and middle management by top management, and the annual general salary increase approach which tends to treat management employees as immune to the economic hardships that we are all facing. As a result of the increases gained by union members, the unions are seen as viable vehicles for channelling frustrations with some of our practices.

Industrial action

Following an impasse in wage negotiations in 2008, some 2,500 out of

Union memberships – bargaining unit

Union name	CWU	SACU	Solidarity	Non-recognised unions	Total	Non-unionised	**Grand total**
Number of members	8,205	4,682	2,836	52	15,775	5,259	**21,034**
% membership: 2008/09	39.0	22.3	13.5	0.2	75.0	25.0	**100**
% membership: 2007/08	37.6	23.8	13.2	0.2	74.8	25.2	**100**

Union memberships – managerial staff

Union name	CWU	SACU	Solidarity	Non-recognised unions	Total	Non-unionised	**Grand total**
Number of members	149	319	125	225	818	1,668	**2,486**
% membership: 2008/09	6.0	12.8	5.0	9.1	32.9	67.1	**100**
% membership: 2007/08	5.7	12.0	4.3	8.7	30.7	69.3	**100**

14,500 union members participated in a short-lived strike in August 2008 and 1,680 bargaining unit employees participated in industrial action in August 2009. Telkom continues to engage with unions in order to find equitable solutions.

- **Heartbeat**

The company measures the level of employee engagement, through the annual Heartbeat Survey.

In the year under review our employees were more committed to Telkom and indicated that their intention was to stay with the Company and take up the challenges that come their way. For the first time in a long period employees are proud to say that they are part of the Telkom family. They are willing to continue to focus on the positive in spite of negative economic conditions; internal performance pressures; and changing market forces.

The great news is that even in the light of the above challenges the Company's engagement increased by a pleasing 10%. Some 62% of the Company's employees were engaged compared to 52% in 2008. It is expected that this will be reflected in increased individual, team and Company performance, as well as in the retention of the right people in the Company.

Engaged employees focus on what's good for the customer and what's good for shareholders. There is positive growth in customer satisfaction in most of the customer segments, which is indirectly the result of the positive engagement of our employees.

Telkom intends to continue its effort to improve employee engagement through a particular focus on improving the accessibility and availability of top management and improving Telkom's ability to attract and retain a quality workforce.

Talent management

Managing our talent pool is a critical aspect of our business, from retaining key skills to unearthing the leaders of tomorrow. We have a number of initiatives in place to ensure we are well placed to face current and future challenges.

Hartebeeshoek keeps track of South Africa

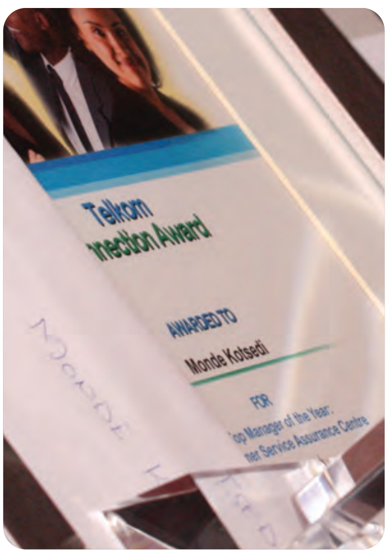
The multi-billion rand Hartebeeshoek satellite station lies deep in a valley between Krugersdorp and Hartbeespoort Dam. Since its opening in 1975 it has relayed literally billions of signals from two satellites deep in space to South Africa's data, television and voice units, 24 hours a day, seven days a week. Donovan Horn is one of the 28 people that man the station.

As a technical specialist, Donovan heads a team of eight technicians who ensure that the station runs smoothly and efficiently. "We have to be fully operational at all times and our equipment is in what we call full redundancy mode so that if anything goes down it kicks in automatically," he says.

For some people, working at the station could be a lonely experience, but not for Donovan. "We are surrounded by prime bushveld with its myriad species of flora and fauna, so there's always something to see, whether it's a Piet-my-Vrou whose call echoes from the satellite dishes, or our lone Blesbok. The only thing I do miss about 'civilisation' is that there is no canteen on site so, if you forget your lunch, the nearest hamburger is 23km away!"

Human capital management *(continued)*

Our Graduate Development Schemes division is dedicated to growing and developing young talent



In the year under review our employees were more committed to Telkom and indicated their intention to stay.

- **Succession planning**

During the year under review our talent pool bench strength rose to 1,474. Effectively this means that there is at least one candidate in the talent pool for each group executive and executive position who can replace the current incumbent.

- **Retention programme**

The four focus areas of our retention strategy are:

- Create knowledge (attract and seek talent)
- Store and protect knowledge (retain talent)
- Share and distribute knowledge (develop potential talent); and
- Use knowledge (deploy talent).

The success rate of our retention programme to date is 95%, with 253 employees on retention.

- **Global talent**

To ensure we have a sustainable talent pool to staff our international businesses we established a Global Talent Pool and, currently, 48 employees are on short- or long-term assignments with Multi-Links/Africa Online.

- **Managed career development for high potential employees**

The six employees who obtained their Masters degrees in engineering and computer science at Cornell University in New York in 2007/08, rejoined us in September 2008 with two being promoted. An additional three employees were admitted to the university in May 2009.

Six employees, identified by the CEO Rising Stars programme, are attending the IMD's Building On Talent programme in Switzerland.

51 female employees attended a Chat and Learn programme which focused on Women Leaders Under Construction – Blazing Your Own Path. In addition, 10 female employees attended a two day workshop on Women In Management and Leadership.

Graduate and skills pipelines (future talent)

Our Graduate Development Schemes Division is dedicated to growing and developing young talent, not only for ourselves, but for South Africa as a whole.

Some R29.7 million was invested in student bursaries in the fields of information technology, electrical engineering and marketing management during the year and an additional R3.7 million was spent on our Centres Of Excellence programme.

We also funded 833 full-time bursaries; 667 part-time bursaries and 1,121 study loans for employees or their dependants in the 2008 academic year.

The voices of Telkom

Telkom has 34 call centres in South Africa, each geared to providing technical support and service to business and domestic customers. For the men and women who staff the centres, life can, at times, be challenging and stressful for these people are the 'voice' of Telkom, the ones who take the brunt of customer complaints.

Hilary Peacock, an agent in the Cape Town Service Activation Unit, says a key attribute to surviving in the job is the ability to not take any of the abuse received as personal. The other key attributes are learning what tone of voice to adopt when handling calls, good or bad, and having a passion for customers

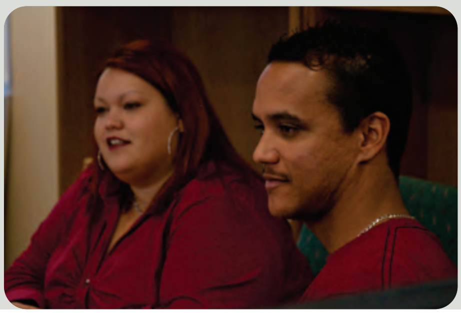
"I try to put myself in the customer's place and take the good with the bad when handling calls. Overall, the good definitely outweighs the bad and I would go as far as to say that about 90% of the calls I receive are good," she says.

Colleague Marlon Ernstzen agrees, particularly when it comes to adopting the right tone of voice.

"There's nothing better than talking to an irate customer who's upset because something he was promised didn't happen, and then, at the end of the call, hearing him, or her, calm down and apologising and then saying thank you for the help. That experience energises you for the next day."

Blanche Machelm is an agent in the Electronic Business Support Centre (EBSC) in Cape Town, a unit which handles between 6,000 and 8,000 calls a day, mainly in the areas of ADSL support (90% of the calls) and fault and connectivity issues – e-mail, for example.

Blanche, who estimates that she handles approximately 50 calls a day, says all EBSC agents have to have an IT background as they have to have an intimate technical knowledge in areas such as routing, configurations, outages, modems and cable passwords.



Human capital management *(continued)*

Overall, the year under review was our most successful to date in terms of bursar placements (80%) and a pass rate of more than 95%.

Africa Online and Multi-Links

Africa Online is our internet service provider (ISP) in Nairobi, Kenya and Multi-Links is Nigeria's first private telecommunications operator. Two of our top management employees are on three year contracts in Nairobi and 39 are based in Lagos.

Telkom Centres of Excellence

Telkom's Centres of Excellence (CoE) is a collaboration programme between Telkom, the telecommunications industry and government to promote research in communication technology and allied sciences and to provide facilities to encourage young scientists and engineers to pursue their research interests in South Africa

The CoE programme was launched in February 1997 when the then Minister of Communications, Mr Jay Naidoo participated in the signing ceremony of the first research agreement between Telkom, Siemens and the University of Cape Town. During 1997 a total of seven CoEs were launched and subsequently, during the following year another five were established, including several at technikons. From the launch of the programme, the current Chief Executive Officer of Telkom, Mr Reuben September, became the patron of the programme and has guided and supported the initiative. At each of the launches during 1997/98, top ranking government officials, including Mr Andile Ngcaba, Mr Tokyo Sexwale and Minister Sibusiso Bhengu participated in the signing ceremonies of the collaborative research agreements.

As part of Telkom's contribution to the upliftment of advanced research skills in South Africa, several of the previously under-resourced universities were partnered with historically white universities. After a number of years these previously disadvantaged institutions have established themselves as research centres that can operate independently. Examples of these joint research centres are Rhodes University and the University of Fort Hare as well as the University of KwaZulu-Natal together with the University of Zululand. Currently, there are 16 CoEs across the country, each with a unique research focus.

The CoEs are jointly funded by Telkom, ICT industry players and the Department of Trade and Industry - through its Technology and Human Resource for Industry Programme (THRIP).

Sound governance ensures that allocated funds are well managed. Various levels of governance have been formally established.

- Formal CoE Agreement between all stakeholders.
- Each CoE is managed by a Steering Committee represented by the research staff, Telkom, the respective industry sponsor and a representative from the THRIP management team.
- Research project selection mechanisms are aligned with; industry partner/s and THRIP funding criteria.
- High level governance of the CoE programme is provided by an Executive Management Council with representivity from Telkom, industry, academia and THRIP.

The various CoEs have been encouraged to build relationships with African universities to expand the ICT blueprint in Africa as a catalyst for job creation and economic development.

Major progress has already been made in this regard and formal agreements exist, *inter alia*, with institutions in Egypt, Ethiopia, Uganda, Namibia, Kenya, Libya and Tunisia.

The CoE programme enables the various institutions to establish research facilities that would not otherwise have been possible without the necessary Telkom, industry and government sponsorship.

Skills retention in South Africa is a major challenge as many talented post-graduate students are attracted to opportunities overseas. An important feature of the CoE programme is that the extensive research opportunities offered to students effectively contribute to minimising the "brain drain", thus keeping our talent here to provide a valuable human resource to the industry.

Approximately 250 students are currently pursuing post graduate degrees through the programme and since its inception, more than 1,800 post graduate degrees have been awarded.

The profile of the current CoE students is:

- 84 Doctoral students
- 166 Masters students
- 20 women
- 150 BEE candidates
- 38% non-South African students

Currently 27 industry partners are involved in the CoE programme. Industry stakeholders are more than financiers of the CoE programme as they also play a vital role in exposing students to the real world of communication.

Telkom's CoE programme has been recognised as a catalyst for ICT research in Africa.

Intuitions, research areas and industry partners

Tshwane University of Technology

Radio planning: projects involve comparing the calculated or predicted value of radio signals with the measured signals.

Industry Partners: Telkom, Alcatel-Lucent and Molapo Technology

North West University (Potchefstroom Campus)

Telecommunications Application Modelling includes projects on the Super Parallel Computing facility; data mining; decision support systems and mathematical programming applications.

Industry Partners: Telkom and Saab Grintek

University of Johannesburg

Modelling Optical communication: involving Dense Wave Division Multiplexing (DWDM) projects; optical filters and transport networks

Industry Partners: Telkom, CBi Electric and Ericsson

Operational Support Systems (OSS)

Industry Partners: Telkom and SAP

Nelson Mandela Metropolitan University

Multimedia software: includes usability laboratory projects, virtual classroom; programming tools and 3D system design

Industry Partner: Telkom and Dimension Data

Optical Fibre Measurements

Industry Partners: Telkom, Hezeki and MCT Communications

Solar Energy Research

Industry Partners: Telkom and TFMC

Rhodes University

Distributed Multimedia: projects deal with virtual reality; Internet Protocol telephony, protocols and intelligent agents

Industry Partners: Telkom, Comverse, Tellabs and StorTech

University of Fort Hare

Electronic Commerce

Industry Partners: Telkom, Saab Grintek and Tellabs

University of Stellenbosch

Satellite communication, speech and image processing

Industry Partners: Telkom, Motorola and Spescom

University of Witwatersrand

Telecommunications Access and Services based on the TINA Architecture

Industry Partners: Telkom, Vodacom and Nokia Siemens Networks

University of Limpopo

Automatic Speech technology

Industry Partners: Telkom and Maredi

University of Pretoria

Next Generation Networks

Industry Partners: Telkom, Unisys, Alvarion, EMC and Tellumat

University of KwaZulu-Natal

Radio access involving CDMA receivers; traffic modelling; adaptive antenna arrays and resource management.

Rural telecommunications with a variety of projects in the wireless networking arena.

Industry Partners: Telkom and Alcatel-Lucent

University of Zululand

Mobile e-Services

Industry Partners: Telkom and Huawei

Universities of Cape Town and Stellenbosch

ATM/Broadband Networks and their applications with research on MPLS and IP networks; congestion control and network performance.

Industry Partners: Telkom, Nokia Siemens Networks and Telesciences

University of Western Cape

Internet Protocol Networks and their applications

Industry Partners: Telkom and Cisco

University of the Free State

The identification of usability and human factors that will ensure higher accessibility to Information Technology

Industry Partner: Telkom

Vaal University of Technology

Power (fuel cells etc) and optic fibre research

Industry partners: Telkom, M-Tec and TFMC

Safety, health and environment

We successfully piloted a stress resilience and emotional intelligence workshop

An industrial theatre show was a key driver in the roll-out of our Thuso Wellness days which highlighted a step-by-step approach to improve employee wellbeing through lifestyle changes.

Safety, health and environment

Our entrenched and integrated Employee Wellness and Safety, Health and Environment (SHE) portfolio continues to be one of the most admired in South African industry, as evidenced by the following achievements in the year under review.

- We received the coveted international Global Business Coalition (GBC) Award for Excellence as the best HIV/AIDS workplace programme for our integrated Voluntary Counselling, Testing and Treatment programme for 2008. The award was made by the United Nations Secretary General in New York.
- Our annual national HIV/AIDS celebrations campaign, 'Don't hesitate, donate', was successfully launched on World AIDS Day 2008 with our employees donating thousands of kilograms of food, clothes and toys to 26 adopted HIV/AIDS havens, orphanages and hospices.
- Our Direct Retail shops initiated the Thuso Bus concept (Thuso is our employee wellness programme). Outlets in the Eastern Cape, including the former Transkei, were given a working day off to attend Thuso programmes.
- We successfully piloted a stress resilience and emotional intelligence (EQ) workshop in areas with high degrees of trauma as a result of hijackings, robberies and other criminal activities. This will be rolled out nationally in the new financial year.

Sick leave indices

Sick leave measure	2006/2007	2007/2008	2008/2009	% variance
SAR (%) Defined as a total number of sick days as % of total available man-days	2.24	2.51	**2.52**	(0.4)
ASR (days) Defined as the average number of days used per sick leave incident	2.45	2.48	**2.53**	2.0
AFT (incidents) The average number of sick leave incidents per sick leave user	3.38	3.59	**3.30**	(8.1)
SUR (%) Monthly average Number of sick leave users per month as % of total number of employee population	15.7	17.3	**17.3**	0
SUR (%) Year-to-date Number of sick leave users progressively utilising sick leave as % of total number of employee population (all sick leave users are only calculated once)	67.2	70.1	**71.7**	2.3
Total number of man-days/shifts lost due to sick leave implying the progressive and accumulative total of sick leave days over 12-month period	176,795	194,364	**183,679**	(5.5)

- We saved R2 million on our Operational Hygiene surveys thanks to the application of specific criteria in key areas.
- Our ISO 14001:2007 and OHSAS 18001:2007 Safety, Occupational Health and Environmental Management systems were recertified by Dekra Norisko Industrial South Africa.
- The Compensation Commissioner granted us a dedicated resource to deal specifically with Telkom-related cases. This resulted in a ‘quicker return to work’ by employees who were injured on duty.
- As a result of effective risk management controls, there were significant reductions in three reportable incident categories – working in elevated positions (17%); lifting and pushing (30%); and vehicle accidents (16%).
- We established the Telkom Green Initiative (TGI) project team to enable us to better manage our environmental impact.

Absenteeism through illness

There were no significant variations in the absenteeism through illness and year-to-date sick leave use figures, although there was a 5.5% improvement in overall sick leave days used.

We remain concerned about the high level of sick leave taken (71.7% compared to 70.1% in the previous year) and we will be making planned changes in sick leave policy stipulations and management effectiveness to decrease this business risk and impact. In terms of productivity and direct/indirect cost factors, the data indicates that 791 employees are off sick each working day. While this is an improvement of 2.6% on the previous year, it is still unacceptable and a significant improvement is necessary. Our new target is to reduce the sick leave per day to 600 employees in 2010/2011.

Physical wellness

An industrial theatre show, ‘How Do I Eat This Elephant’ was a key driver in the roll-out of our Thuso Wellness days which highlighted a step-by-step approach to improve employee wellbeing through lifestyle changes. Our challenge remains to reconstruct the “Terrible Triangle” of high stress levels, poor chronic disease profile and bad lifestyle habits.

- **Eye screening**

2,113 employees were screened for vision impairment and 194 were identified for further treatment intervention.

- **Individual health risk assessments (chronic profile)**

2,903 employees at selected sites in the Free State, KwaZulu-Natal, Western Cape and Gauteng were screened for hypertension, cholesterol, diabetes and body mass.

 # Hypertension profile: While there was a decrease in the normal range from 63% to 46%, this remains a major risk area as more than 50% of those tested had some abnormality in their blood pressure. The high systolic range (heart subtraction)

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Safety, health and environment *(continued)*

Of particular concern

is the 17.6% increase in stress-related cases due to work related relations, poor performance, incapacity and job security.

The following table shows the diagnostic causal factors for the EAP referrals

Diagnosis	2006/2007	2007/2008	**2008/2009**	% variance
Crisis and trauma	41.7%	41.3%	**40.5%**	(1.9%)
Family relationships and divorce	15.4%	17.6%	**16.1%**	(8.5%)
Stress related	7.6%	6.8%	**8.0%**	17.6%

percentage was similar to the previous year but the diastolic (heart pumping) rate increased from 15% to 25% as a result of increased cardio-vascular illnesses; increased stress levels and poor lifestyles.

 # Cholesterol profile: There was a 7% increase in the at-risk category, again due to lifestyle factors such as lack of exercise and incorrect eating habits. This profile will be a priority going forward in our wellness campaigns.

 # Diabetes profile: There was an 11% improvement in the diabetes chronic profile, thanks to regular testing and the fact that diabetes remains a high focus area. However, we are concerned that low blood sugar levels rose from 28% to 37% and this will be another key focus area in our awareness campaigns.

 # Obesity profile: This is a high risk area for us as 65% of the employees tested were overweight or obese. As a result, the importance of lifestyle modification is a priority for us in the new financial year.

 # Opportunistic diseases: We are pleased to note that only six cases of TB were reported in the year under review and all cases were successfully treated.

Psychological wellness

In the year under review we transformed this section of the Wellness programme into a more proactive, competency-based approach, highlighted by the following:

- Some 1,216 employees and their dependants were referred to our psychological counselling interventions, a 10% decrease on the previous year. This decrease is, we believe, largely due to the fact that employees did, from time to time, use their own private psychologists. From the referrals, 4,132 sessions were conducted at an average of 3.4 sessions per referred patient at a cost to us of R1.8 million.
- Of particular concern is the 3.8% increase in cases in the 'other psychological illnesses', such as psycho-sexual, personality disorders and related psychosis. This could be the tip of the iceberg as some of the problems experienced by our employees are of such a sensitive nature that they are discussed with their own psychologists.
- The stress category (which includes work-related poor performance, incapacity, job security etc) constitutes almost 14% of all diagnoses and the 293 cases recorded during the year is an increase of 17.6% on the previous year. This is a major challenge for us in the next financial year, particularly in view of the roll-out of Project Renaissance and the resultant uncertainty of job security and fears of job losses.

Preventative interventions

Five key workshops were held during the year:

- Stress and resilience;
- Team and value development;
- Trauma and resilience;
- Bereavement therapy; and
- Conflict management.

These will be augmented by another six workshops in the next financial year:

- Psychological and emotional resilience;
- Financial wellness;
- Prevention of emotional burnout;
- Emotional intelligence;
- Dealing with challenging circumstances; and
- The psychology of customer care.

Socio-economic wellness

We provided guidance in the areas of lifestyle, finance and debt counselling during the year, three key areas that impact on the wellbeing of our employees with the specific focus to reduce stress and poor lifestyle habits.

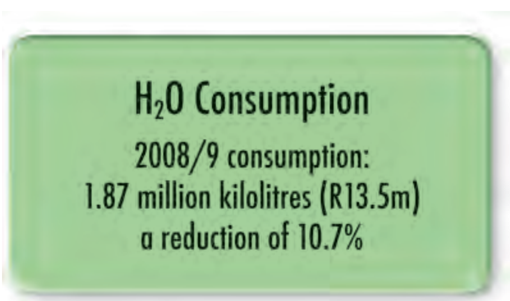
 # Lifestyle: We contracted a lifestyle service provider to run our Telkom Touch Lifestyle Programme which connects employees to a range of lifestyle services such as recreational, vocational, household, educational and general lifestyle value offerings at great prices.

 # Financial resilience: There was an increase in counselling referrals (three to four a month) for employees with financial problems, which was underscored by the increase in garnishee orders against employees. As a result, a bid for the outsourcing of a financial resilience intervention and a financial advice service has been approved and is in process,

 # Debt counselling: We have set up a debt counselling service which registers employees who have huge debt under the National Credit Act of 2005. This protects them against parties demanding payment. A debt counselling company will act for such employees, negotiating new payback terms for bonds, vehicle leases and other creditors and preventing repossession of these assets.

Safety management

The Occupational Health and Safety (OHS) of Telkom's employees is a fundamental right and therefore Telkom acknowledges that a healthy and safe working environment enhances performance in the workplace and also contributes to employee wellbeing.



Our carbon footprint

It now takes the earth 16 months to regenerate the resources it uses in a year and so businesses that look ahead and actively manage their ecological risks and opportunities can not only make a major contribution to saving the world's resources but, at the same time, gain a strong competitive advantage over those that don't.

At Telkom, via our Green Initiative, we are consolidating all our environmental initiatives to ensure we meet our, and legislation's, targets and, additionally, educate our people and encourage them to lead a greener lifestyle.

We have 10 key focus management areas – energy, water, waste, greenhouse gas emissions, green procurement, biodiversity, renewable energy, company initiatives, our corporate image and our people. Some of our key objectives in these areas are to offset emissions, participate in carbon trading, provide the greater ICT sector and stakeholders with products and services that will help them to reduce their footprints and provide our shareholders with 'green' returns.

Some of the areas where we can improve are:

- Employee business travel (currently 26.7 million km a year). Our aim is to reduce this by 5.3 million km.
- Our 2008/09 electricity consumption was 537,300MWh. Our aim is a reduction of 107,460MWh.
- EPS generators use 2.3 million litres of diesel. Our aim is to reduce this by 456,000 litres.
- Employee business air travel sits at 31.8 million km. Our aim is to reduce this by 6.4 million km.

Overall, we believe we can reduce our carbon emissions by between 15% and 30% over the next three to five years.

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Safety, health and environment *(continued)*

To ensure Telkom complies with the minimum safety requirements as per national legislation and to support Telkom's OHS policy, a:

- Well structured SHE Governance policy is developed and revised annually.
- Incident on Duty (IOD) system is developed to provide intelligent information to assist management in identifying trends and to implement corrective actions to mitigate future incidents.
- Contractor management audit programme is implemented to ensure contractors are audited monthly to meet the requirements of the Construction Regulations; and
- Telkom Subsidiary audit initiative is implemented to provide support to the subsidiaries to meet minimum statutory SHE requirements.

HIV/AIDS workplace programme

In addition to our international award, our Thuso programme is recognised for its best practices by researchers and academics who visit us for benchmarking purposes.

Since the inception of our voluntary counselling and testing programme (VCT) in 2004, 23,391 employees have been tested. In the year under review, 2,353 employees, from a target population of 3,178 at 52 sites, were tested.

We have 280 employees receiving anti-retroviral therapy of which the majority have a normal sick absence profile, being healthy and productive at work.

In analysing this data, 32% of HIV positive employees are either in the process of being registered or are unaccounted for. This remains a challenge for the programme to improve on this conversion rate to get identified HIV positive employees on to the programme. In the 2008/2009 performance cycle, there were 74 new registrations on the programme (40 via onsite VCT; 32 self-identified and two prophylaxis patients).

The gender distribution on the chronic programme is 203 (52%) male and 186 (48%) female. The median age is 36 years with ranges between four and 56 years.

We have adopted a conservative approach in providing anti-retrovirals for employees registered on the programme with a CD4 count of 350 versus a governmental and NGO norm of 200. Using this as measurement category, only 14 (4.9%) of the 284 employees on anti-retrovirals are categorised in the AIDS or fully blown AIDS category.

- **Preventative strategy**

Since 1996, we have dispensed free condoms at all sites. In the year under review more than 703,000 condoms were dispensed and more than 120,000 expired condoms of previous governmental issues were withdrawn.

- **Peer education**

Currently 594 employees have been trained and registered as fully fledged peer educators. It is gratifying to note that the involvement of peer educators has extended beyond the boundaries of the Company into the communities they serve via the adoption of various havens, orphanages, hospices and presentations to community youth groups. As a result, a Champions Programme will be launched later in 2009 to formalise community involvement.

- **Thuso Toll-free Call Centre**

Some 4,234 calls were routed via the Thuso Call Centre for the year under review. Outbound calls comprised 65.5% of these, mainly providing clinical support to patients. Inbound personal advice calls made up 29.7% of all calls.

- **KABP Study**

The regular KABP (Knowledge, Attitude, Behaviour and Perception) studies which test the general level of information, understanding and influencing behaviour of employees about education and awareness interventions have been extended to the HIV positive employees to test their understanding and also determine the level of stigmatisation experienced by them in the workplace.

Environmental management

While our environmental impact is not big, our contribution is not totally insignificant and, as a result, during the year under review we launched our Telkom Green Initiative, a concerted effort to place green issues firmly in the mainstream of our operations.

- **Treatment protocols**

In terms of treatment protocols, the following table reflects the current treatment status:

Treatment aspect	Number of employees
HIV positive employees	708
HIV positive status via VCT	512 (72%)
HIV positive status via self-identification	196 (28%)
HIV employees registered on the Chronic Disease Programme	389 (55%)
HIV employees registered on Medical Aid, NGO or Government Programmes	92 (13%)
HIV positive employees on treatment (Expert Treatment Programme (ETP))	**284 (40%)**

Some of the key deliverables are:

- Measuring our carbon footprint through the monitoring of electricity and fuel use; minimising travel and reducing waste and carbon emissions (there is no carbon trading legislation in South Africa as yet). Reducing our electricity bill through the installation of meters at key sites, a possible return to using more solar power and the installation of wind chargers.
- Participation in national and international climate change awareness programmes.
- Employee behavioural change awareness programmes.
- Computerised destination control elevator system in our high rise buildings.
- Improved functional efficiency of underfloor cooling requirements in equipment rooms.
- The implementation of the Green building concept in partnership with our facility management company; and
- Installation of motion sensor light switches and upgrade of existing lighting technology with more efficient technology.

Bats

We are currently managing a bat encroachment concern in a remote exchange building in Mpumalanga. A colony of free tailed bats is roosting and raising its young in the ceiling, which creates an unhealthy environment for our technicians performing routine maintenance work. We are allowing the young to mature and will then install a one-way excluder exit. This will allow the mature adults and young to leave but not return. The final phase of the project will be the erection of a bat house on the site to provide an artificial roosting site for the colony.

Blue cranes

We are delighted to announce that since the installation of ‘flappers’ on our lines in the central region, no blue crane mortalities have been recorded.

Raptors

As part of our commitment to active environmental stakeholder engagement with both governmental and non-governmental organisations we attended various meetings around the country. One of these is the annual meeting of the Northern Cape Raptor Forum (NCRF). At the last meeting issues relating to the nesting habits of sociable weavers on our towers were raised, specifically the environmental impact the removal of these nests would have on the survival of the Pygmy Falcons which prey on the weavers.

Corporate social investment

The Foundation was voted the Top Empowerment Company in CSI

All our corporate social investment (CSI) programmes are run and managed by the Telkom Foundation which we established 10 years ago.

As a result of the Foundation's work, we are recognised as one of the largest CSI investors in South Africa and in the year under review we invested more than R47 million, mainly in the areas of education and the roll-out of information and technology in disadvantaged communities.

As a result of this commitment, the Foundation was voted the Top Empowerment Company in CSI at the 2009 Oliver Empowerment Awards, hosted by Topco.

The Foundation's focus on education and technology is governed by our belief that these areas are key contributors to an equal opportunity society in South Africa. One of the most powerful learning resources is the internet and by bringing this medium into classrooms around the country, educational standards will be enhanced.

It is our hope that our continued investment in these fields will help redress skills shortages, particularly in the engineering, science and IT fields.

We focused on four main projects in the year under review:

- **2,010 for 2010 Schools Connectivity Initiative**

This is the Foundation's biggest and most ambitious project ever. Our goal is to provide 2,010 schools across the country with internet access by 2010.

Fittingly, the initiative was launched in February 2009 by our CEO, Reuben September, at his former school, Grassy Park High School in Cape Town.

Each participating school will receive an internet connection; discounted broadband subscription rates and interactive electronic whiteboards and laptops.

Grassy Park also received an Internet Café for use by not only the learners, but the community. If this pilot programme is successful, it will be rolled out to the other schools as part of the overall initiative.

We have been a proud supporter of the South African Paralympic team since 1992. Our team achieved 6th place in the overall medal table in the 2008 Beijing Olympics.

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Corporate social investment *(continued)*

- **Beacon of Hope**

This programme, which was launched in 2006, is designed to develop promising young learners into future leaders by placing top students from under-resourced schools in some of the country's leading high schools.

The Foundation pays for the tuition and boarding fees; uniforms; books and stationery for the 186 learners enrolled in the programme.

- **Giving from the Heart**

Initiated by our Human Resources department to encourage employees to give something back to the community, the project was taken over by the Foundation in 2006.

Employees can either donate a portion of their salary to Giving from the Heart projects; donate their time and skills to projects, or identify their own charities to which they contribute either money or time. The Telkom Foundation matches every rand an employee donates with the same amount.

In the year under review, the Foundation launched an Employee Volunteer Week which resulted in our people working and assisting at the Tumelo Hospice in Mabopane; the Centre of Hope in Mahwelereng; the Nokuthula School for the Intellectually Disabled in Marlboro; the Uthando Orphanage House in Hazyview; St Patrick's College in Kokstad and the Hospice Association of Transkei in Southernworld.

- **Sponsorships**

In the year under review various grants were made to organisations ranging from Childline to Nurturing Orphans of AIDS for Humanity (Noah) in line with our commitment to improving the lot of previously disadvantaged communities.

Going forward

In the next financial year, the Telkom Foundation will launch the Telkom Teacher of the Year awards to honour South Africa's top maths, science and technology educators at the Further Education and Training and the General Education and Training level. The awards will be made in August 2009.

Our Telkom Business golf sponsorships enable us to position our brand in the business environment. They also help us to introduce new products and reinforce our relationship marketing programme.

Sponsorships

Sponsorships continue to be an important part of our brand building and reputation management strategies. In the year under review we focused on soccer, swimming and golf.

Soccer

For the third consecutive year we sponsored the Telkom Knockout, a Premier Soccer League ('PSL') event played by all 16 PSL teams between October and December. It is a knockout event that plays a major role in honing South Africa's soccer skills.

For the ninth consecutive year we also sponsored the Telkom Charity Cup, a one day PSL event where the fans choose the four competing teams. The teams who receive the most telephone and SMS votes play in a round robin series of games. A significant portion of the money generated by ticket sales and telephone voting is given to charities working with children, the elderly and people with disabilities. Some 695,000 fans voted in the 2008 event and R4.6 million was raised for the charitable organisations.

2010 FIFA Soccer World Cup

Telkom is a tier three National Supporter within the fixed-line environment. The biggest sporting event in the world is the perfect platform for Telkom to showcase its ICT capabilities. In June 2009, the Confederations Cup was utilised as a dress rehearsal for the World Cup finals in 2010. Telkom exceeded all FIFA's requirements in ensuring that broadcasting and media requirements were met. Telkom has approximately 128,000 cable kilometres of optical fibre in the ground – enough to circle the world three times. This is more than enough fibre to support the massive amounts of bandwidth that FIFA will need in 2010.

Swimming

Since 2000, we have sponsored Swimming South Africa, a public benefit organisation which promotes all aquatic sports in the country. In addition to many South African swimming stars such as Ryk Neethling, Natalie du Toit and Roland Schoeman, Swimming South Africa has played a key role in boosting public awareness of swimming as a life and survival skill. Swimming contributes towards the Company's objectives of being a caring organisation, as the sport offers opportunities for both able and disabled people.

Drowning remains a major cause of death among children under the age of 14 and, as a result of our support for Swimming South Africa's 'Learn to Swim' programme, many children and adults in the country have the opportunity to learn to swim.

The programme is sub-divided into the 'Pool Splash' project which focuses on safe swimming in pools; the 'Ocean Splash' project which concentrates on sea swimming and the 'Rural Splash' project which concentrates on swimming in rivers and dams.

Golf

Our Telkom Business golf sponsorships – the Telkom PGA Championships, the Telkom PGA Pro-Am on the Sunshine Tour and two Telkom Business Pro-Ams – enable us to position our brand in the business environment. They also enable us to introduce new products and reinforce our relationship marketing programme.

We also have a presence on Sunshine Tour tournaments such as the SA Open and the Nedbank Golf Challenge. In addition we are a broadcast sponsor of international events like the European Tour and World Gold championships.

Paralympics

Telkom has been a proud supporter of the South African Paralympics team since 1992. Our team achieved 6th place on the overall medal table in the 2008 Beijing Olympics. The Paralympics are not only about sport; they are about hope, pride, inspiration and courage. Telkom is honoured to align our brand with this message of upliftment.

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Global reporting initiative (GRI) content index

Telkom has opted for an incremental adoption of the guidelines to the GRI index, the full adoption will include a quality assurance and compliance audit report. In many cases, Telkom's internal reporting frameworks pre-date external frameworks, hence this is presented as a navigation aid as opposed to a "tick-box" compliance exercise.

Item		Comment and reference
Vision and strategy		
1.1	Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	See Telkom's website: www.telkom.co.za/ir
1.2	Statement from CEO (or equivalent senior manager) describing key elements of the report.	Chief Executive Officer's review
Profile		
Organisational profile		
2.1	Name of reporting organisation.	Telkom SA Limited
2.2	Major products and/or services including brands if appropriate.	Operational review Further details of products and service can be accessed on the website www.telkom.co.za
2.3	Operational structure of the organisation.	Group structure
2.4	Description of major divisions, operating companies, subsidiaries.	Group structure
2.5	Countries in which the organisation's operations are located.	Enterprise risk management
2.6	Nature of ownership; legal form.	Telkom Group structure
2.7	Nature of markets served.	The telecommunications industry
Report scope		
2.10	Contact person(s) for the report, including e-mail and web addresses.	Administration page and www.telkom.co.za/ir
2.11	Reporting period for information provided.	Year ended March 31, 2009
2.12	Date of most recent previous report.	Year ended March 31, 2008
Report profile		
2.17	Decisions not to apply GRI principles or protocols.	Sustainability review
2.18	Criteria/definitions used in any accounting for economic environment.	Notes to the consolidated annual financial statements
2.19	Significant changes from previous years in the measurement methods.	Notes to the consolidated annual financial statements
2.22	Means by which report users can obtain additional information and reports about economic, environmental and social aspects of the organisation's activities, including facility-specific information.	See Telkom's website: www.telkom.co.za/ir

Item		Comment and reference
Governance structure and management systems		
Structure and governance		
3.1	Governance structure, including major Board committees.	Corporate governance report
3.2	Percentage of the Board of directors that are independent, non-executive directors.	Corporate governance report
3.3	Board-level processes for overseeing economic, environmental and social risks and opportunities.	Corporate governance report
3.4	Linkage between executive compensation and achievement of goals.	Human capital management report
3.5	Organisational structure and key responsibilities.	Chief officers and management team
3.6	Mission and values statements and codes of conduct.	See Telkom's website: www.telkom.co.za/ir
3.7	Mechanisms for shareholders to provide recommendations to the Board of directors.	Company Secretary (see contact details on ibc;) IR road-shows; AGM and the IR website www.telkom.co.za/ir
Stakeholder engagement		
3.8	Major stakeholders.	Sustainability review
3.9	Approaches to stakeholder consultation.	Sustainability review
3.10	Type of information generated by stakeholder consultations.	Sustainability review
3.11	Use of information resulting from stakeholder engagements.	Sustainability review
Economic performance indicators		
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EC3	Cost of all goods, material and services purchased.	Consolidated income statement
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EN2	Percentage of materials used that are waste (processed or unprocessed) from sources external to the reporting organisation.	Safety, health and environment report
EN5	Total water use.	Safety, health and environment report
EN6	Land owned, leased, or managed in biodiversity-rich habitats.	Safety, health and environment report
EN7	Description of major impacts on biodiversity, associated with the organisation's activities and/or products and services in terrestrial, freshwater and marine environments.	Safety, health and environment report
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Labour practices and decent work		
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LA2	Percentage of employees represented by independent trade unions.	Human capital management report
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LA4	Standard injury, lost day and absentee rates and number of work-related fatalities.	Safety, health and environment report
LA5	Description of policies or programmes on HIV/AIDS.	Safety, health and environment report
LA6	Average hours of training per year per employee by category of employee.	Human capital management report
LA7	Equal opportunity policies or programmes.	Human capital management report
LA8	Composition of senior management and corporate governance bodies.	Chief officers and management team Corporate governance report

Five year operational review

for the years ended March 31

	2005	2006	2007	2008	**2009**	CAGR (%)
Fixed-line operational data						
ADSL subscribers[1]	58,278	143,509	255,633	412,190	**548,015**	75.1
Calling plan subscribers	–	62,803	272,071	464,038	**590,590**	111.1
Closer subscribers	–	62,803	266,300	451,122	**575,812**	109.3
Supreme call subscribers	–	–	5,771	12,916	**14,778**	60.0
W-CDMA subscribers	–	–	–	–	**5,253**	n/a
Fixed access lines ('000)[1]	4,726	4,708	4,642	4,533	**4,451**	(1.5)
Post-paid – PSTN	3,006	2,996	2,971	2,893	**2,769**	(2.0)
Post-paid – ISDN channels	664	693	718	754	**781**	4.1
Prepaid	887	854	795	743	**766**	(3.6)
Payphones	169	165	158	143	**135**	(5.5)
Fixed-line penetration rate (%)	10.1	10.0	9.8	9.5	**9.1**	(2.6)
Revenue per fixed access line (ZAR)	5,250	5,304	5,275	5,250	**5,349**	0.5
Total fixed-line traffic (millions of minutes)	31,706	31,015	29,323	26,926	**24,869**	(5.9)
Local	19,314	18,253	14,764	11,317	**8,822**	(17.8)
Long distance	4,453	4,446	4,224	3,870	**3,631**	(5.0)
Fixed-to-mobile	3,911	4,064	4,103	4,169	**4,126**	1.3
International outgoing	415	515	558	635	**622**	10.6
International VoIP	89	83	38	43	**34**	(21.4)
Subscription based calling plans	–	–	1,896	2,997	**3,546**	36.8
Interconnection	3,524	3,654	3,740	3,895	**4,088**	3.8
Domestic mobile interconnection	2,206	2,299	2,419	2,502	**2,484**	3.0
Domestic fixed interconnection	–	–	–	113	**415**	n/a
International interconnection	1,318	1,355	1,321	1,280	**1,189**	(2.5)
Managed data network sites	11,961	16,887	21,879	25,112	**29,979**	25.8
Internet all access subscribers[2]	225,280	282,927	302,593	358,066	**423,196**	17.1
Fixed-line employees	28,972	25,575	25,864	24,879	**23,520**	(5.1)
Fixed access lines per fixed-line employee[3]	163	184	180	182	**189**	3.8

(1) Excludes Telkom internal lines.
(2) Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.
(3) Based on number of fixed-line employees, excluding subsidiaries.

	2005	2006	2007	2008	**2009**	CAGR (%)
Mobile operational data[4]						
Total mobile customers ('000)	15,483	23,520	30,150	33,994	**39,614**	26.5
South Africa						
Mobile customers ('000)	12,838	19,162	23,004	24,821	**27,625**	21.1
Contract	1,872	2,362	3,013	3,541	**3,946**	20.5
Prepaid	10,941	16,770	19,896	21,177	**23,561**	21.1
Community services telephones	25	30	95	103	**118**	47.4
Mobile churn (%)	27.1	17.7	33.8	42.3	**40.1**	10.3
Contract	9.1	10.0	9.7	8.3	**9.9**	2.1
Prepaid	30.3	18.8	37.5	47.9	**45.4**	10.6
Estimated mobile market share (%)[5]	56	58	58	55	**53**	(1.4)
Mobile penetration (%)	49.5	70.6	84.2	94.3	**108.0**	21.5
Total mobile traffic (millions of minutes)	14,218	17,066	20,383	22,769	**24,383**	14.4
Mobile ARPU (ZAR)[6]	163	139	128	128	**133**	(5.0)
Contract	624	572	517	486	**474**	(6.6)
Prepaid	78	69	63	62	**68**	(3.4)
Community services	2,321	1,796	902	689	**534**	(30.7)
Mobile employees[7]	3,919	4,305	4,727	4,849	**5,451**	8.6
Mobile customers per mobile employee[7]	3,276	4,451	4,867	5,119	**5,068**	11.5
Other African countries						
Mobile customers ('000)	2,645	4,358	7,146	9,173	**11,989**	45.9
Mobile employees[8]	1,074	1,154	1,522	1,992	**2,336**	21.4
Mobile customers per mobile employee[8]	2,463	3,776	4,695	4,605	**5,132**	20.1
Gateway employees	–	–	–	–	**389**	n/a

(4) 100% of Vodacom data.
(5) Based on Vodacom estimates.
(6) With effect from April 1, 2008, ARPU calculations include revenues from national roamers and international visitors roaming on Vodacom's network. Historical ARPU numbers have been restated in line with this new methodology.
(7) Includes Holding company and Mauritian employees and temporary employees.
(8) Includes temporary employees.

	2005	2006	2007	2008	**2009**	CAGR (%)
Multi-Links						
Subscribers	–	–	185,619	813,392	**2,516,109**	268.2
Employees	–	–	–	782	**1,124**	n/a
Permanent	–	–	–	680	**775**	n/a
Expatriate	–	–	–	71	**95**	n/a
Temporary	–	–	–	31	**254**	n/a
Africa Online						
Subscribers[9,10]	–	–	n/a	17,252	**18,441**	n/a
Employees	–	–	317	379	**313**	(0.6)

(9) From April 1, 2008, Africa Online changed the method of counting subscribers to include all the individual corporate sites as individual customers. The comparative information for 2008 has been restated.
(10) Excluding UUNet joint venture partner's subscribers in Kenya. UU-Net had 300 and 320 subscribers as at March 31, 2008 and 2009, respectively.

Operational review

History and development of the Company

Telkom was incorporated on September 30, 1991 as a public limited liability company registered under the South African Companies Act No. 61 of 1973, as amended.

Registration number: 1991/005476/06

The Company's principal executive offices are located at:

Telkom Towers North
152 Proes Street
Pretoria
0002
Gauteng Province
South Africa

Telephone number: +27 (0)12 311 3566
Website address: http://www.telkom.co.za

Historical background

Prior to 1991, the former Department of Posts and Telecommunications of South Africa exclusively provided telecommunications and postal services in South Africa. In 1991, the government of South Africa transferred the entire telecommunications enterprise of the Department of Posts and Telecommunications of South Africa to a new entity, Telkom, as part of a commercialisation process intended to liberalise certain sectors of South Africa's economy. Telkom remained a wholly state-owned enterprise until May 14, 1997, when the government of South Africa sold a 30% equity interest in Telkom to Thintana Communications LLC, a strategic equity investor beneficially owned by SBC Communications Inc. and Telekom Malaysia S.D.N. Berhard. On March 7, 2003, we completed our initial public offering and listing on the JSE and NYSE, pursuant to which the government of South Africa sold a total of 154,199,467 ordinary shares, including 14,941,513 ordinary shares through the exercise of an over-allotment option.

Sale and unbundling of Vodacom shareholding

Effective as of April 20, 2009, Telkom concluded the sale and unbundling of its interest in Vodacom, pursuant to which the following inter-conditional transactions occurred:

- Telkom sold a 15% stake in Vodacom for R22.5 billion of cash less the attributable net debt of Vodacom as at September 30, 2008 and 15% of any dividends, and any secondary taxation on companies (STC) levied thereon, which amounted to R20,583 million.
- Telkom distributed to its shareholders a sum equal to 50% of the after-tax proceeds from the sale to Vodacom, net of any STC levied thereon (R19 per share) by way of a special dividend.
- Vodacom converted to a public company and was listed on the main board of the JSE Limited on May 18, 2009; and
- Telkom distributed its remaining 35% stake in Vodacom to eligible Telkom shareholders in proportion to their shareholdings in Telkom, by way of an unbundling in terms of Section 90 of the Companies Act 61 of 1973, as amended, and Section 46 of the Income Tax Act 58 of 1962, as amended.

On June 2, 2009, Telkom completed a placement of 28,993,233 shares of Vodacom, on behalf of ineligible foreign shareholders, with institutional investors through an accelerated bookbuild offering, pursuant to Regulation S under the US Securities Act of 1933. The Vodacom shares were placed at a price of R53.00 per share, raising gross proceeds of R1.54 billion for such ineligible foreign shareholders. The proceeds from the offering, net of applicable fees, expenses, taxes and charges, were distributed to the ineligible foreign shareholders in proportion to their entitlement to Vodacom shares. JP Morgan Securities Limited acted as the Sole Bookrunner for the placement. For further information on this transaction please refer to the detailed announcements posted on the Investor Relations website at www.telkom.co.za.

Delisting on the New York Stock Exchange

Given the current global economic climate and the business imperative for Telkom to reduce its cost base, the Board has decided to delist from the New York Stock Exchange. Maintaining a listing in the United States is expensive and takes considerable management time. The methodology employed and discipline gained from compliance with the Sarbanes-Oxley reporting requirements will be retained, where appropriate, to ensure strict corporate governance compliance and transparent financial reporting.

Telkom is comfortable that the JSE provides sufficient access to capital from both South African and global investors. Telkom intends to maintain a level 1 American Depositary Receipt programme to facilitate over-the-counter trading in the United States of America.

Senior management

On November 14, 2008, the Board announced that our business would be split into three operational units – Telkom SA, Telkom International and Telkom Data Centre Operations, effective from April 1, 2009. On April 15, 2009 Thami Msimango was appointed Managing Director of the Telkom International business unit. On May 1, 2009 Nombulelo Moholi was appointed Managing Director of Telkom SA and on July 30, 2009 Pierre Marais was appointed as acting Managing Director of Telkom Data Centre Operations.

Operational review *(continued)*

Peter Nelson was appointed Chief Financial Officer on December 8, 2008.

On July 7, 2009 Telkom announced the appointment of Jeffrey Hedberg as Chief Executive Officer of Multi-Links.

Segmental reporting and discontinued operations

At the beginning of 2009, Multi-Links was added as a separate financial reporting segment. Our four reporting segments are now fixed-line, Multi-Links, mobile and other. The other segment includes Trudon, formerly TDS Directory Operations; Africa Online; Swiftnet and Telkom Media. Discontinued operations include Vodacom, Swiftnet and Telkom Media.

Acquisitions and investments

During the year under review we purchased an additional 25% of Multi-Links in Nigeria, giving us 100% control of the company. In addition, after year end we acquired MWEB Africa and 75% of MWEB Namibia from Naspers and we sold our 75% shareholding in Telkom Media to Shenzhen Media South Africa.

Strategic agreement with AT&T

On April 16, 2009 we entered into a strategic memorandum of understanding with global communications leader AT&T to enable the Company to extend its reach into sub-Saharan Africa to service corporate customers and boost our strategy to grow a strong local footprint in Africa.

Business summary

We are one of the largest companies registered in South Africa and one of the largest communications service providers in Africa based on operating revenue and assets. As of March 31, 2009, we had total assets of R85.8 billion; operating revenue from continuing operations of R35.9 billion; approximately 4.5 million telephone access lines with 99.9% of these connected to digital exchanges.

We offer our customers fixed-line voice services, fixed-line and wireless data services and mobile communications services. Other services include the Trudon Group, our directory services, Multi-Links and MWEB Africa subsidiaries.

Overview

Our fixed-line segment is our largest business segment and includes our fixed-line voice, data and internet businesses. Telkom's fixed-line services comprise:

- Fixed-line subscription and connection services to postpaid, prepaid and private payphone customers using PSTN lines including ISDN lines, and the sale of subscription based value-added voice services and customer premises equipment (CPE) rental and sales.
- Fixed-line traffic services to postpaid, prepaid and payphone customers including local, long distance, fixed-to-mobile, international outgoing and international Voice over Internet Protocol (VoIP) traffic services.
- Interconnection services, including terminating and transiting traffic from South African mobile operators and international operators, as well as transiting traffic from mobile to international destinations, and
- Data and internet services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL services, W-CDMA packet based services, managed data networking services, as well as internet access and related information technology services.

Products and services

Subscriptions and connections

Telkom provides post-paid, prepaid and private payphone customers with digital and analogue fixed-line access services including PSTN lines, ISDN lines, and wireless access between a customer's premises and our fixed-line network. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels. Each ISDN line transmits signals at speeds of 64 Kbps per channel. Subscriptions to ADSL are included in our data services revenue.

We were the first fixed-line operator globally to provide a prepaid service on a fixed-line network. Our prepaid service offers customers an alternative to the conventional post-paid fixed-line telephone

	Year ended March 31,				
(in thousands, except percentages)	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Post-paid PSTN[1]	2,971	2,893	**2,769**	(2.6)	**(4.3)**
Business	1,426	1,429	**1,396**	0.2	**(2.3)**
Residential	1,545	1,464	**1,373**	(5.2)	**(6.2)**
Prepaid PSTN	795	743	**766**	(6.5)	**3.1**
ISDN channels	718	754	**781**	5.0	**3.6**
Payphones[2]	158	142	**135**	(10.1)	**(4.9)**
Total fixed access lines[3]	4,642	4,532	**4,451**	(2.4)	**(1.8)**

[1] *Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fibre.*
[2] *Includes public and private payphones.*
[3] *Total fixed access lines are comprised of PSTN lines, including ISDN channels, prepaid lines, ADSL lines and public and private payphones, but excluding internal lines in service. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.*

(in thousands, except percentages)	Year ended March 31, 2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Opening balance	4,708	4,642	**4,532**	(1.4)	**(2.4)**
Net line growth	(66)	(110)	**(81)**	(66.7)	**(26.4)**
Connections	572	497	**482**	(13.1)	**(3.0)**
Disconnections	(638)	(607)	**(563)**	(4.9)	**(7.2)**
Closing balance	4,642	4,532	**4,451**	(2.4)	**(1.8)**
Churn (%)	13.6	13.3	**12.5**	(2.2)	**(6.0)**

service. All costs including installation, telephone equipment, line rental and call charges are paid in advance, eliminating the need for monthly telephone bills. We target our prepaid service mainly at first-time residential customers who do not have sufficient credit history, and are located in areas where we can provide access to our network without significant additional investment. Customers who have previously had their telephone service disconnected due to non-payment are also encouraged to migrate to our prepaid service option in order to reduce future non-payments while satisfying demand for our services.

We also offer a broad range of value-added voice services on a subscription or usage basis including call forwarding, call waiting, conference calling, voicemail, toll-free calling, ShareCall which permits callers and recipients to share call costs, speed dialling, enhanced fax services and calling card services for payphones. These services complement our basic voice services and provide us with additional revenue while satisfying customer demand, enhancing our brand and increasing customer loyalty. Value-added voice services such as our CallAnswer voicemail service are also bundled with value-added calling plans such as Telkom Closer, to further enhance the value of these services to our customers.

We provide payphone services throughout South Africa. As at March 31, 2009, Telkom operated approximately 132,208 public payphones and approximately 3,146 private payphones, of which approximately 39% were coin-operated and combination payphones, and the remainder card-operated payphones.

The table opposite presents information regarding our post-paid and prepaid lines as well as payphones as at the dates indicated, excluding our internal lines.

The table above shows information related to the number of our fixed access lines in service, net line growth and churn for the periods. Churn is calculated by dividing the number of disconnections by the average number of fixed access lines in service during the year.

Connections include new line orders resulting primarily from changes in service and, to a lesser extent, new line roll-out. Disconnections include both customer-initiated disconnections and Telkom-initiated disconnections. Included in disconnections and churn are those customers who have terminated their service with Telkom and subsequently subscribed to a new service with Telkom as a result of relocation or change of subscription to a different type of service.

Value-enhancing bundles

During the year under review, Telkom continued to focus on customer retention and offering value for money by continuously enhancing packages such as PC bundles and Telkom Closer, including the following:

From August 1, 2009, Closer customers will have the option to choose between CallAnswer and Identicall. Currently the package includes only CallAnswer.

Telkom Closer 1

Includes line rental, CallAnswer, a minimum flat-rate charge for calls during off-peak time up to one hour, a discounted per record rate for local and long distance calls subject to a minimum charge, as well as 30 free local minutes during standard time introduced since August 2007. In addition, with effect from August 2008, this package includes 60 free local internet minutes during off-peak time.

Telkom Closer 2

Includes line rental, CallAnswer, unlimited free calls during off-peak time up to one hour, a discounted per record rate for local and long distance calls subject to a minimum charge, as well as 30 free local minutes during standard time introduced in August 2007. In addition, with effect from August 2008, this package includes 60 free local internet minutes during off-peak time.

Telkom Closer 3

Includes line rental, CallAnswer, 1,300 inclusive free peak-time minutes, unlimited free calls during off-peak time up to one hour, a discounted per second rate for local and long distance calls subject to a minimum charge, as well as reduced rates to selected international destinations and pure per second billing for fixed-to-mobile calls since August 2007.

Telkom Closer 4

All the benefits of Telkom Closer 3 bundled with Fast DSL up to 384 Kbps.

Telkom Closer 5

All the benefits of Telkom Closer 3 bundled with Fastest DSL up to 4096 Kbps.

Telkom Closer plans 1 to 3 have an option to purchase 150 or 75 local internet hours during call more time.

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The Telkom Closer packages have performed well, increasing by 27.6% to 575,812 plans. Supreme call packages, targeted at the business segment, have increased by 14.4% to 14,778 packages and PC bundles have increased 48.3% to 11,336. Telkom continues to be successful in tying in large corporate customers to term and volume discount plans. Annuity revenue streams, which exclude line installations, reconnection fees and CPE sales, have increased by 6.8% to R7.4 billion. Telkom will seek to continue converting revenue streams to annuity revenues. This will be done largely through bundling call minutes and ADSL services with access line rental in attractive subscription based value propositions. This is an important strategy for delivering greater value to our customers. Our current line penetration of bundled products is 41.7% and we are targeting a penetration of 56% by 2013/14.

Pricing is a key element of the value proposition and our pricing strategy is aimed at improving our competitiveness in areas where competition is expected to intensify and where arbitrage opportunities exist. Telkom's strategy to counter pricing pressures is as follows:

- Actively offer value based calling plans and bundles to extend value and savings to our customers.
- Reduce international and long distance rates to reduce arbitrage opportunities;
- Rebalance standard/off-peak local rates, to better align these with international norms and improve our competitive position; and
- Reduce and rebalance national and international data prices to improve our competitive position.

The decrease in the number of subscriber lines was largely in the residential post-paid PSTN line and, to a lesser extent, business post-paid PSTN lines, partially offset by an increase in ISDN channels. The decrease in the number of residential post-paid PSTN lines was mainly due to the introduction of competition in the fixed-line arena from Neotel, including due to customers relocating and changing providers, customer migration to mobile and higher bandwidth products and, to a lesser extent, cable theft incidents. The increase in prepaid services in the 2009 financial year was due primarily to our lower priced "Waya-Waya" offering, which accounted for approximately 60.2% of prepaid services as of March 31, 2009. The increase in ISDN channels and ADSL services was mainly driven by increased demand for higher bandwidth and functionality. This is evident in the 6% growth in ISDN Primary rates and the 33% growth in ADSL services. The upgrading of DSL 1024 to DSL 4096 increased the attractiveness of this DSL band, with customers migrating from DSL 512 to the high speed offering despite the added cost. Telkom's aggressive marketing campaigns for Do Broadband products, also contributed to the ADSL growth. In the 2009 fiscal year, Telkom introduced a wireless W-CDMA service to combat the effects of theft, as well as grow market share in anticipation of Telkom moving into the mobile market. Connections to our wireless W-CDMA service are included in our numbers of subscribers, but not lines.

We also offer telecommunications equipment rentals and sales such as telephones and private branch exchange (PABX) systems, as well as related post-sales maintenance and service for residential and business customers in South Africa. The market in South Africa for such equipment and systems, commonly known as customer premises equipment (CPE), is characterised by high competition and low profit margins. We believe, however, that the supply and servicing of CPE is an essential part of providing a full service to our customers and in the process stimulating usage on our network.

Traffic minutes

We offer local, long distance, fixed-to-mobile, international outgoing and international voice over internet protocol services to business, residential and payphone customers throughout South Africa at tariffs that vary depending on the destination, length, day and time of call.

The following table presents information regarding our fixed-line traffic minutes, excluding interconnection traffic, for the periods indicated. We calculate fixed-line traffic by dividing fixed-line traffic revenues for the particular category by the weighted average tariff for that category during the relevant period.

	Year ended March 31,				
(in millions of minutes, except percentages)	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Local[1]	14,764	11,317	**8,822**	(23.3)	**(22.0)**
Long distance[1]	4,224	3,870	**3,631**	(8.4)	**(6.2)**
Fixed-to-mobile	4,103	4,169	**4,126**	1.6	**(1.0)**
International outgoing	558	635	**622**	13.8	**(2.0)**
International voice over internet protocol	38	43	**34**	13.2	**(20.9)**
Subscription based calling plans	1,896	2,997	**3,546**	58.1	**18.3**
Total	25,583	23,031	**20,781**	(10.0)	**(9.8)**

[1] *Local and long distance traffic includes dial-up Internet traffic.*

	Year ended March 31,				
(in millions of minutes, except percentages)	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Domestic mobile interconnection traffic	2,419	2,502	**2,484**	3.4	**(0.7)**
Domestic fixed interconnection traffic	–	113	**415**	n/a	**267.3**
International interconnection traffic	1,321	1,280	**1,189**	(3.1)	**(7.1)**
Total	3,740	3,895	**4,088**	4.1	**5.0**

Traffic was adversely affected in both the 2009 and 2008 financial years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up internet traffic being substituted by our ADSL service, as well as the decrease in the number of residential post-paid PSTN lines and increased competition in our payphone business. In addition, the 2009 financial year traffic was adversely affected by customer migration to broadband services offered by mobile operators.

The table above sets forth information regarding interconnection traffic terminating on or transiting through our network for the periods indicated. We calculate interconnection traffic, other than international outgoing mobile traffic and international interconnection traffic, by dividing interconnection revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the traffic registered through the respective exchanges and reflected in international interconnection invoices.

The increase in domestic mobile interconnection traffic in the years ended March 31, 2009 and 2008 was primarily due to an overall increase in mobile calls as a result of growth in the mobile market, partially offset by increased mobile-to-mobile calls bypassing our network. The decrease in domestic mobile interconnection traffic in the 2009 financial year was primarily due to increased mobile-to-mobile calls bypassing our network.

Domestic fixed interconnection traffic includes traffic from Neotel, USALs and VANS. The increase in domestic fixed interconnection traffic in the year under review was mainly due to increased competition.

International interconnection traffic decreased in the 2009 and 2008 financial years due to a decrease in volumes as a result of loss of volumes to Neotel, Sentech, the USALs and illegal operators terminating traffic in the country. The decrease was partially offset by increased international hubbing traffic in the year under review.

Tariff rebalancing

We made significant progress in rebalancing our fixed-line tariffs. Our tariff rebalancing programme was historically aimed at better aligning our fixed-line traffic charges with underlying costs and international norms. We expect that our tariff rebalancing in future will focus more on the relationship between the actual costs and tariffs of subscriptions, connections and traffic in order to more accurately reflect underlying costs, and in response to increased competition.

Regulations under the Telecommunications Act, which remain in effect, impose a price cap on a basket of Telkom's specified services including installations, prepaid and post-paid line rental, local, long distance and international calls, fixed-to-mobile calls, public payphone calls, ISDN services, our Diginet product and our Megaline product. A similar cap applies to a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 Mbps of capacity and the rental and installation of business exchange lines. Approximately 57% of our operating revenue for the year ended March 31,2008 was included in this basket, compared to approximately 54% in the year ended March 31, 2009. Our tariffs for these services are filed with ICASA for approval. The price cap operates by restricting the annual percentage increase in revenues from all services included in the basket that are attributable solely to changes in annual inflation, measured by changes in the consumer price index, less a specified percentage.

Historically, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was 1.5% below inflation. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered to 3.5% below inflation, and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA, and pursuant to the Electronic Communications Act, revenue generated from services where we have significant market power may not be used to subsidise competitive services. Early in 2008, ICASA commissioned a review of the existing price control regulations applicable to Telkom; however, ICASA has not initiated the statutory public process of reviewing the existing regulations. Telkom is

Operational review *(continued)*

awaiting communications from ICASA in respect of proposed timelines for the review.

ICASA approved a 2.1% reduction in the overall tariffs for services in the basket effective August 1, 2006, a 1.2% reduction in the overall tariffs for services in the basket effective August 1, 2007 and a 2.4% increase on its regulated basket of products and services effective August 1, 2008. On June 22, 2009, Telkom filed with ICASA proposed average price increases on its regulated basket of products and services of 1.7% as a result of inflation increases, effective August 1, 2009. The price control formula would have permitted Telkom to apply for a 19.7% price increase due to the high consumer price index in South Africa and excess carryover of lower price increases for prior periods. Our tariffs are subject to approval by the regulatory authorities. All tariffs include value-added tax (VAT) at a rate of 14%.

Data

Leased lines

A large number of leased lines are provided to the mobile operators at negotiated wholesale rates for the build-out of their networks. With the growth in traffic carried on the mobile networks, a need was identified for the deployment within these networks of transmission links with speeds higher than the 2 Mbps provided by existing agreements. We have broadband fixed-link leasing agreements with Vodacom, MTN and Cell C. These agreements have been enhanced over time, and we currently provide broadband links at speeds of 45 Mbps, 155 Mbps and 622 Mbps, and anticipate that we will soon be providing links at speeds of 2.5 Gbps. Formalised service level agreements as well as term and volume based discount structures, as a counter to the competitive challenges that are occurring in this area of the business, have been implemented.

Recognising the increasing threat of competition in the provision of leased lines to the mobile operators, Telkom introduced further discounting structures in the 2007 and 2008 financial years to enhance the attractiveness of Telkom's product offerings to this rapidly growing market. Fixed-link leasing agreements were also entered into with some of the smaller operators, including VANS and USALs, as well as with Neotel. Vodacom and MTN have both indicated that they intend to self-provide some of the leased lines, which they require for the build-out of their networks, as an alternative to leasing from Telkom. We are currently negotiating improved leased line prices with the mobile operators in order to retain revenue from leased lines.

The table below indicates the bandwidth capacity of our Diginet, Diginet Plus, ATM Express and broadcasting data transmission services:

Leased line	**Bandwidth**
Diginet	64 Kbps
Diginet Plus	128 Kbps to 2 Mbps
ATM Express	2 Mbps to 155 Mbps
Broadcasting	
Analogue audio	7.5 or 15 KHz
Analogue video	70 MHz
Digital	2 Mbps to 155 Mbps

Managed data networking services

Our managed data networking services combine our data transmission services discussed above with active network management provided through our state-of-the-art national network operations centre. We offer a wide range of integrated and customised networking management services, including design, planning, installation, management and maintenance of corporate-wide data, voice and video communications networks, as well as other value-added services such as capacity, configuration and software version management on customers' networks. To support our service commitment, we offer guaranteed service level agreements on a wide range of our products, which include guaranteed availability, or uptime, of the network through the use of our national network operations centre.

Our managed data networking services include our customer network care service which facilitates the network management of all our data transmission services using the leased lines or packet based services discussed above, and our Spacestream and IVSat products, which are satellite based products. Spacestream is a high quality, flexible satellite networking service that supports data, voice, fax, video and multimedia applications, both domestically and in the rest of Africa.

Managed data networking services are billed on a monthly basis and vary by customer depending on the particular services provided and the number of network sites under management.

	As of March 31,				
	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Terrestrial based	12,905	17,237	**19,042**	33.6	**10.5**
Satellite based	8,974	7,875[1]	**10,937[2]**	(12.2)	**38.9**
Total managed network sites	21,879	25,112	**29,979**	14.8	**19.4**

[1] *Satellite based managed network sites declined during the 2008 financial year as a result of Uthingo, the South African lottery operator, losing its licence to operate.*

[2] *The increase in the 2009 financial year was mainly due to new global and corporate customers and expansion of the networks of existing customers.*

Telkom's focus on bringing new innovative products to the market that cater for increased data usage and converged services has resulted in our new VPN products gaining increased traction in the market. We have increased VPN sites by 20.7% to 14,659. Our VPN Lite products, which are delivered over the ADSL network, include advanced self-help and online charging solutions. This product was launched during November 2007. Telkom is in the process of building on a culture of research and innovation and fast time-to-market, in order to cater for customers who are increasingly looking for innovative, easy to use products.

Broadband and converged services continue to perform well with ADSL subscribers up 33% to 548,015. Do Broadband subscribers increased 58.1% to 188,540. Internet all access subscribers increased 18.2% to 423,196. Our current broadband line penetration rate is 15% and our targeted penetration rate is 25 by 2013/14.

We have increased DSLAMs throughout the country by 50.4% to 4,000 sites. We have installed 91% of ADSL lines within 21 working days where no network build is required, compared to 79% in the year ended March 31, 2008 and 74% within 21 working days where network build is required compared to 66% in the year ended March 31, 2008. The ADSL Self Install option is expected to continue to improve the installation times. As of March 31, 2009, 57% of all ADSL installations were being done through the Self Install option.

ADSL allows provisioning of high speed connections over existing copper wires using digital compression. We have different ADSL services available, aimed at the distinct needs of our customers.

The following table indicates our product offerings as at March 31, 2009:

	DSL 384	DSL 512	DSL 4096
Downstream speed	Up to 384 Kbps	512 Kbps	4096 Kbps
Upstream speed	Up to 128 Kbps	256 Kbps	512 Kbps

Internet access services and other related information technology services

Telkom is one of the leading internet access providers in South Africa in the retail and wholesale internet access provision markets. We also package our TelkomInternet product with personal computers, ADSL and ISDN services, as well as our satellite access products, SpaceStream Express and SpaceStream Office.

Our South African Internet exchange (SAIX) is South Africa's largest internet access provider, offering dedicated and dial-up, aDSL and satellite internet connectivity to internet service providers and value-added network providers. SAIX has offered fixed-line network internet access through dial-up service since 1995. SAIX derives revenue for its access services primarily from subscription fees paid by internet service providers and value-added network providers for access services. In order to grow the portfolio, an opportunity has been identified to develop a service targeted mainly at night-time users of the SAIX ADSL service. These customers can be regarded as heavy users as they use the service mainly for games, music and movie downloading. The SAIX customer base has expanded beyond service providers and value-added network providers, and now includes Vodacom and other operators in Africa. These include incumbents in Mozambique, Namibia, Angola, Zimbabwe and Lesotho.

Broadband and converged services

We have identified an opportunity to develop a SAIX northern hemisphere internet service targeted at African operators and ISPs to enhance additional growth of internet access services north of the equator. Currently, the customers in this region buy their internet services from Europe. By establishing a central SAIX hub in London we believe we can capture this market and increase our revenue.

The table below presents information regarding our wholesale and retail internet services and customers as at the dates indicated.

Voice over Internet Protocol network

Softswitch capability has been deployed as an overlay network to enable the communication of VoIP services. Our current VoIP network terminates calls for numerous international voice carriers into our fixed-line network as well as local VANS providers. Call centres from around the world that have relocated to South Africa due to favourable economic conditions and lower resource costs are also hosted on our VoIP network. Telkom has points of presence for connectivity to the VoIP network in Amsterdam, London, New York, Ashburn (Washington DC), Hong Kong, Zambia, Zanzibar, Tanzania, Senegal and Madagascar. The network has 69 media gateways and can terminate some 32,700 voice circuits. The media gateways compress the traditional voice channels of 64 Kbps to 8 Kbps channels, thus enabling us to reduce the cost of international calls, while maintaining the perceived voice quality of a 64 Kbps call.

	Year ended March 31,				
	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Wholesale					
Internet leased lines-equivalent 64 kbps	19,247	22,541	**24,204**	17.1	**7.4**
Dial-up ports	11,462	7,010	**4,541**	(38.8)	**(35.2)**
Retail					
Internet all access subscribers	302,593	358,066	**423,196**	18.3	**18.2**

Operational review *(continued)*

WiFi

In February 2005 Telkom launched a hot spot service that provides wireless data access through 802.11b/g WiFi technology. Any user with a wireless-enabled notebook computer or personal digital assistant can connect to the service while in the coverage area. WiFi is mainly targeted at restaurants, hotel groups, major shopping malls and some sites on national routes. At March 31, 2009 Telkom had 335 hotspots, up from 237 at March 31, 2008.

WiMAX

Telkom has launched services based on fixed (IEEE 802. 16-2004) WiMAX technology. This technology is a standards based broadband wireless access technology that provides throughput connectivity in a point-to-multipoint configuration. The technology is designed to enable Telkom to complement its ADSL service offering and voice services to customers in areas affected by fixed-line copper cable problems. Currently there are 57 WiMAX base stations across all major cities and towns with 2,615 customers, including voice and internet customers as of March 31, 2009.

W-CDMA

We have started rolling out a W-CDMA Wireless Local Loop (WLL) network in the 2100MHz band. Initially planned to deliver service in areas plagued by theft, breakages and incidents, the network is now expected to evolve into a full mobile network to compete with other mobile operators. As of March 31, 2009, we had 141 base station sites in major metropolitan areas.

Geographic expansion and other operations

Telkom aims to establish itself as a regional voice and data player through providing a range of hosting services, managed solutions, mobile voice and wireless broadband services. We are also entering the field of management consulting to operators. In addition, we are positioning Telkom as a wholesale facilities and infrastructure enabler for regional incumbents.

Our expansion to date has been through Multi-Links, a private telecommunications operator operating in Nigeria and Africa Online, an internet services provider with its head office in Kenya and operating in eight other African countries.

The Telkom Group added Multi-Links as a new segment to its financial reporting for the 2009 financial year. As a result, the Telkom Group's four reporting segments for the 2009 financial year are fixed-line, Multi-Links, mobile and other. The other segment includes Telkom's Trudon, formerly known as TDS Directory Operations, and Africa Online subsidiaries. The information in this annual report has been updated to reflect the above changes to Telkom's reporting segments.

Trudon

Telkom owns 64.9% of Trudon, formerly known as TDS Directory Operations, the largest directory publisher in South Africa providing white and yellow pages directory services and electronic white pages. In the year ended March 31, 2009, Trudon published approximately 5.437 million white, 1.995 million yellow and 7.433 million combined directories. Trudon also provides electronic yellow pages and value-added content through full colour advertisements. Trudon has improved the accessibility and distribution of directories through door-to-door delivery and electronic media. Trudon also provides national telephone inquiries and directory services. The remaining 35.1% of Trudon is owned by Truvo Services South Africa (Pty) Ltd, formerly known as Maister Directories. On January 23, 2007, Trudon acquired a 100% shareholding in a shell company and subsequently renamed it TDS Directory Operations (Namibia) (Pty) Ltd, which provides directory services in Namibia. On October 31, 2008, Trudon sold a 25% interest in TDS Directory Operations (Namibia) (Pty) Ltd to Ripanga Investment Holdings (Pty) Ltd, a black economic empowerment partner in Namibia, for two million Namibian dollars.

Trudon's capital expenditure was R12 million in the 2009 financial year as the company sought to continue to expand access and distribution into new markets. Trudon has invested in a new online platform in order to combat declining revenue from printed products.

Trudon's primary competitors for print materials include Caxton, Easy Info and Brabys. Trudon's primary internet competitors include Yahoo, Google, Ananzi, as well as vertical search capabilities such as Auto Trader and Supersport. Trudon's estimated market share as of March 31, 2009 was approximately 11% in respect of print media and approximately 22% in respect of internet directory services.

Trudon had 531 employees as of March 31, 2009.

Multi-Links

With effect from May 1, 2007, Telkom acquired 75% of Multi-Links Telecommunications Limited, or Multi-Links, through Telkom International, a wholly owned South African subsidiary, in Nigeria, for US$280 million, or R1,985 million. The remaining 25% of Multi-Links was owned by Kenston Investment Limited, an investment company based in the Isle of Man in the United Kingdom. With effect from January 21, 2009, Telkom acquired the remaining 25% interest in Multi-Links for US$130 million, thereby increasing its ownership of Multi-Links to 100%. The purchase price was subject to a contractual put option in favour of the minority shareholder.

Multi-Links is a private telecommunications operator with a Unified Access Licence allowing fixed, mobile, data, long distance and international telecommunications services to corporate clients, wholesale and mass markets in Nigeria.

Multi-Links' Unified Access Licence was granted on November 1, 2006 and has a term of 10 years, with seven years remaining. There are currently 13 operators licensed with Unified Access Services Licences in Nigeria, making the Nigerian telecommunications market extremely competitive as operators may use any technology to deliver voice, data and video services to their customers.

We were disappointed with the performance of Multi-Links. The poor performance is solely attributable to our under-estimation of the competitiveness of the Nigerian market and the aggressive response of the CDMA operators to our subsidisation of handsets. We also failed to adequately manage our distribution channels and opened ourselves up to exploitation by the dealers. We have learnt our lessons the hard way. Turning around Multi-Links is our number one priority.

Multi-Links reported a 124.9% increase in revenue to R1.9 billion with subscribers growing 209.3% to 2,516,109 in the year ended March 31, 2009. Voice and data revenue contributed 75.0% to total revenue, handset sales 11.9%, interconnect revenue 12.6% and SMS 0.5%.

Multi-Links's slow start in developing an efficient and well controlled distribution channel, together with a departure from its initial strategy of focusing on high ARPU subscribers, the delayed launch of EVDO and destructive competition in the CDMA market caused ARPU to decline from US$32 at March 31, 2008 to US$9 at March 31, 2009. Telkom is currently addressing these challenges as indicated below.

Operating expenses increased 157.1% to R2.4 billion primarily as a result of upfront handset subsidies. The average cost per unit equalled approximately R400 and subsidies totalled R281 million. Payment to other operators contributed 26.9%, selling general and administrative expenses 46.0%, employee expenses 5.2%, operating leases 8.0%, service fees 1.6% and depreciation 12.3%.

Multi-Links reported a negative EBITDA margin of 11.9%, an EBITDA loss of R226 million for the year ended March 31, 2009 and a net loss of R1.76 billion after accounting for an impairment of the deferred tax asset of R301 million. Bad debts increased 208.2% to R7.9 million.

Multi-Links has begun focusing its attention on the SMME, corporate and wholesale markets and mainly on high ARPU users. Its revenue retention and growth strategy will concentrate on increasing revenue of fixed wireless and mobile customers through brand awareness and promotion; expanding broadband internet to offer high value bundles and services. Through its extensive fibre network it will provide high quality internet protocol/next generation network services to the government, corporate and SMME customers whilst extending its metro-ethernet services. The reach of its fibre network also allows Multi-Links to concentrate on carrier class corporate and wholesale product and services offerings.

Multi-Links has contracted the service of Blue Label Telecoms Limited to assist with the development and management of our distribution channels, dealerships, promotional campaigns and inventory management.

Operating expenses have been driven by network growth, rehabilitation of distribution channels, marketing costs and customer acquisition and maintenance. Multi-Links is focusing on containing costs through reducing handset subsidies drastically, continuing to migrate to an all IP network in order to reap the benefits of its cost effective network management capabilities and securing cost effective international connectivity through the SAT-3 and other submarine cables.

Capital expenditure increased 112.7% to R2.8 billion in the year ended March 31, 2009. In the 2009 financial year, Multi-Links's build and expansion programme achieved the following:

- Deployed additional packet based mobile switching centres increasing the available capacity from 1,000,000 to 2,800,000 subscribers.
- Extended home location register capacities from 800,000 to 5,100,000 subscribers.
- Rolled out additional base transmission stations increasing its total capacity from 800,000 to 1,800,000 subscribers.
- Successfully launched its broadband service offering by rolling out an EVDO 3G network to a capacity of 100,000 subscribers.
- Added 1,300 kms of optic fibre resulting in a total to 3,711 kms.
- Increased international capacity by the addition of 2 x 155Mb services on the SAT-3 submarine cable system; and
- Extended coverage to 22 states and Abuja.

Turning around Multi-Links's performance is vital to Telkom given the extent of the Group's investment and the enormous opportunity the Nigerian market provides.

US$100 million has been budgeted for the 2009/10 financial year for the completion of an additional 1,645 km build and 584 km swop of optic fibre cable for the DWDM/SDH network. It is anticipated that the network will connect 80 DWDM/SDH sites, covering all major cities in Nigeria, providing us with additional bandwidth connectivity for voice and data customers. In addition, 227 cell towers are to be erected and another 300 commissioned on third party leased tower infrastructure during the year. Seven new customer service centres are planned to facilitate and support the network growth.

We expect Multi-links to be EBITDA positive in 2010/11 and to be cash flow positive by 2011/12.

Africa Online

On February 23, 2007, Telkom acquired 100% of the issued share capital of Africa Online from African Lakes Corporation for a total cost of R150 million. Africa Online is an internet service provider active in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Africa Online's strategy focuses on brand development, creation and development of customer channels, improvement of network systems, human resources development and an expansion drive targeting other African countries. Africa Online offers wireless and fixed technologies, hosting and domain registration to both consumer and corporate customers.

In the 2009 financial year, Africa Online had R194 million of revenue and R216 million of total assets. The major contributors to revenue were corporate and consumer wireless and broadband VSAT services. Consumer wireless revenue growth was predominantly in East Africa, while corporate revenue growth was

Operational review *(continued)*

	Year ended March 31,				
	2007	Restated[1] 2008	**2009**	2008/2007 % change	**2009/2008 % change**
Dial-up ports	n/a	12,051	**11,437**	3.9	**(5.1)**
Consumer wireless	n/a	4,075	**5,754**	110.2	**41.2**
Unbundled local loop	n/a	99	**99**	(1.0)	**–**
ADSL	n/a	325	**308**	8.3	**(5.2)**
VSAT	n/a	96	**210**	269.2	**118.8**
Dedicated corporate	n/a	606	**633**	4.8	**4.5**
Total[1]	n/a	17,252	**18,441**	18.6	**6.9**
UUNet subscribers[2]	n/a	300	**320**	–	**6.7**

(1) In the 2009 financial year, Africa Online changed the method of counting subscribers to include all the individual corporate sites as individual customers. The comparative information for the 2008 financial year has been restated.
(2) Includes 100% of UUNet's subscribers. UUNet is Africa Online's joint venture partner that provides internet services in Kenya. We own a 40% interest in UUNet and MTN owns the remaining 60% of UUNet.

mainly in Ghana and Uganda. The growth in Pan African business, Ghana and Tanzania accounted for the increase in Broadband VSAT. In the 2008 financial year, Africa Online had R110 million of revenue, and R122 million of total assets. In the 2008 financial year, dedicated corporate links and consumer wireless were the highest revenue streams followed closely by dial-up business. Dial-up packages are the most popular and accounted for approximately 62% of Africa Online's total customers as of March 31, 2009. Wireless customers are expected to continue to grow with Africa Online's continued investment in infrastructure.

The reason for the decrease in the number of dial-up and ADSL customers is that Africa Online has shifted its marketing approach to increase customers on its own wireless network infrastructure as opposed to dial-up and ADSL networks.

Africa Online's distribution is conducted through various channels, including direct sales and different types of resellers depending on the customer segment. Customers are serviced through customer relationship managers and a 24 hour call centre. Africa Online's primary competitors include former telecommunication companies that have entered the internet service provider market, mobile providers and other private data companies.

Africa Online's network had 29 points of presence, 46 mobile broadband transceiver stations, 31 fixed broadband wireless access transceiver stations, eight network operation and 17 support centres and eight data centres across nine countries as of March 31, 2009. Africa Online's capital expenditure was US$7 million in the 2009 financial year, US$5.7 million in the 2008 financial year and US$0.8 million in the 2007 financial year. The increase in Africa Online's capital expenditure was primarily for the improvement of service quality and to increase the range of information, communications and technology services offered in the market.

Africa Online had 313 employees as of March 31, 2009. UUNet, Africa Online's 40% joint venture partner had 70 employees as of March 31, 2009. Shiletsi Makhofane was appointed as acting chief executive officer in October 2008.

Africa Online's footprint covers East Africa, southern Africa and West Africa. The regulatory environments are fairly different in each of Africa Online's different regions. East Africa is liberalised and Africa Online provides services across the information, communications and technology spectrum, including voice over internet protocol services, in East Africa. Markets in southern Africa are still regulated, limiting the services Africa Online is able to provide to its customers. West Africa is a fairly liberalised market and Africa Online is presently seeking to take advantage of this opportunity.

MWEB Africa

On April 21, 2009, we acquired a 100% interest in MWEB Africa Limited, which owns approximately 88% of ASFAT Communications Limited, and a 75% interest in MWEB Namibia (Pty) Ltd, for R498 million. MWEB Africa is a group of companies offering internet services and its own VSAT access services in sub-Saharan Africa (excluding South Africa). MWEB Africa is obliged to acquire the additional 12% of AFSAT Communications Limited and we are currently in negotiations to purchase such shares.

MWEB Africa's VSAT service is mostly focused on the corporate and enterprise markets and is branded iWay. Its VSAT services are using satellite teleport facilities in SA, the USA and Europe. The company had almost 20,175 customers at March 31, 2009.

The group is headquartered in Mauritius with operations in Nigeria, Kenya, Tanzania, Uganda, Namibia and Zimbabwe and an agency arrangement in Botswana. There are distributors in 26 sub-Saharan African countries.

Other developments

Mobile strategy

Mobile Strategy – South Africa

The recent liberalisation in the licensing regime, advancements in convergence technology and termination of the Vodafone shareholders' agreement provide Telkom with the opportunity to enter the mobile market. We believe that an integrated fixed-mobile operator is well positioned to react to, and take advantage of the future requirements of our customers. By developing an integrated fixed-mobile offering Telkom will seek to leverage its customer base, marketing, logistics and distribution channels to increase its share of voice revenue. In addition, internet access demands are increasingly requiring mobility. An integrated bundled offering would offer superior speeds and quality through the fixed-line, including the advantages of mobility when required by the customer. Mobility provides cost efficiencies and the opportunity to consolidate traffic onto Telkom's network.

Currently mobile customers are experiencing the effects of highly congested networks. Telkom intends to use the strengths of its fixed-line network to differentiate its mobile service on quality with a fully converged array of products and services. Our Next Generation Network and access to the latest technologies will provide further value to our customers.

Telkom has rolled out 141 W-CDMA sites in major metropolitan areas throughout South Africa. Our initial focus has been on theft, breakages and incident-prone areas, customers waiting for service and greenfield areas where Telkom has no copper infrastructure. In essence, the W-CDMA technology allows Telkom to deploy fixed-line lookalike services with regional fixed numbering plans instead of deploying copper, especially in high copper theft areas or areas where copper deployment is not feasible or too slow to roll out. This roll-out will be extended to rural areas and to replace expensive to maintain legacy equipment.

Our move into offering a fully fledged mobile service is dependent on the finalisation of market research and the outcome of pilot and customer trials planned for the end of 2009.

We are however aware of the power of the entrenched mobile companies. With this in mind, Telkom will not commit to further capital expenditure other than that focused on reducing costs before the Company has completed its market research. Future build will be based on maximising our current infrastructure and subscriber numbers in order to reduce operational and build costs and improve value add as far as possible.

Key Next Generation Network, capacity and product developments

Telkom is in the fourth year of its Next Generation Network (NGN) build out programme. Customer demand and global standards necessitate the provision of services and particularly bandwidth that is only possible utilising the intelligence of an NGN system.

Our NGN build-out achievements are as follows:

- In the national layer of the transport network, bandwidth capability has increased by more than 500% in bandwidth and automatic self-healing re-routing of bandwidth has been introduced based on customer service levels.
- Optical fibre deployment has been accelerated and Telkom now has around 128,000 cable kilometres of optical fibre in the ground, enough to circle the world three times.
- Dense Wave Division Multiplexing (DWDM) systems have been introduced between major metropolitan centres such as Gauteng and Durban. These systems can carry 40 10GB signals over a single fibre pair.
- Metro Ethernet has been deployed in the major metros, including Cape Town, Durban, Johannesburg, Pretoria and Port Elizabeth.
- Integrated Multi-Service Access Multiplexer (IMAX) has been deployed to carry narrowband and broadband services for Wireline legacy and converged systems.
- A Network Interactive Voice Response system has been introduced, giving Telkom and its corporate customers the ability to use advanced speech services such as automated speech recognition and text-to-speech applications.
- The SAT-3/WASC/SAFE undersea cable system, which connects South Africa to Europe and the Far East, has been upgraded to treble the amount of international bandwidth available.

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Next Generation Network (NGN)

Telkom has strategic objectives that are followed as part of network planning to ensure that we drive the implementation of the NGN. Telkom's NGN is based on an evolutionary approach where the NGN is deployed in parallel with the legacy network and migration to the NGN is phased in over time.

Key to Telkom's NGN deployment are Softswitches that function in association with Application Servers, next generation transport networks, and IP and Metro Ethernet networks. In order to leverage on Telkom's ubiquitous network deployment, the transport network will be transformed to support the expected exponential growth in bandwidth. The IP Network has been positioned to differentiate Telkom from its competitors and to leverage on the bandwidth capacity increase of the transport network.

To achieve success with the NGN, two objectives are actively pursued; the consolidation of service offerings and the development and marketing of new and innovative services which are enabled by the NGN technology.

NGN is cheaper to maintain and operate

NGN will provide network convergence and simplification over the longer term as separate networks for voice and data converge to one IP based network with associated intelligent devices such as softswitches and application servers. NGN requires less diverse technology elements to maintain that will increase network reliability and manageability and result in operational savings.

NGN is a revenue generator

There is a critical mass of NGN equipment that is required before proper converged services with a viable footprint are possible. Some NGN services are already functioning, but in small numbers. Pre-provisioning in the core of the network is currently taking place that will be beneficial in the longer term, in view of the expectation that bandwidth will grow exponentially.

The NGN network elements

The Metro Ethernet Network

An extensive Metro Ethernet Network is being deployed for the provisioning of high-speed broadband services for corporate customers and to serve as an access network backhaul to provide cost effective transport of high bandwidth services, typically as a backhaul for access nodes. Metro Ethernet also serves as an access network to services provisioned on the IP Network.

The Transport Network

To achieve the growth and manageability in the transport network, Telkom is deploying Next Generation Synchronous Digital Hierarchy (NG-SDH) and Dense Wavelength Division Multiplexing (DWDM). In order to provide automated provisioning, routing and restoration capability, Automatic Switching Transport Network (ASTN) technology is being deployed on Telkom's long haul network. The ASTN network will also improve resilience, reliability and reduce cost of the transport network.

Softswitches and application servers

Softswitches have been deployed to control media gateways, access gateways and provide basic voice services while it functions in association with application servers to provide advanced next generation voice services. Telkom's IP network provides the transport capability between the network elements while media gateways mediate between the circuit switched network and the Voice Over Internet Protocol (VoIP) network. The need for such media gateways will diminish as more traffic moves to VoIP.

The NGN network will continue to be developed towards an IP Multimedia Subsystem (IMS) controlled network where call control will be combined into a single control layer with IMS architecture. In the longer term customer services will migrate to an NGN infrastructure where only a few Softswitch nodes with multiple Softswitches are required to fulfil the functionalities of the Class 4 core and Class 5 edge Time Division Multiplex switches.

IP Network

Telkom's IP Network is an extensive network, providing points of presence country wide. 34 Edge nodes, each with multiple routers, have been deployed. At these nodes, edge routers act as distribution and aggregation points to IPNet via the Network Access Servers (dial-up customers), Access Routers (leased line Internet customers), customer edges (Customer Edges for VPN termination) and also terminate ADSL sessions – 145 Edge routers are deployed at the 34 edge nodes.

The IPNet routing platforms support business customer requirements (VPN) as well as providing Internet capacity for leased line and broadband internet services.

Separate and dedicated edge routers for business traffic and internet traffic provide physical separation of corporate customer Virtual Private Network (VPN) traffic from that of Internet traffic to ensure secure implementation of services to the business segment. Separate routing platforms, dedicated for ADSL termination, are also deployed at the IPNet edge nodes.

An extensive access network that could potentially provide connectivity to almost any customer provides access to IP services. These access networks include legacy networks such as Constant Bit Rate (CBR), and new point to cloud infrastructure e.g. Synchronous High-bit rate Digital Subscriber Line and Metro Ethernet.

To further improve the secure provisioning of services and create new business opportunities, IPNet is evolving to a Carrier-supporting-Carrier (CsC) Multi-Protocol Label Switching (MPLS) architecture. In short, CsC is a hierarchical

VPN model that allows other service providers or corporate customers to interconnect their own IP/MPLS networks over Telkom's MPLS backbone. This eliminates the need for customer carriers and service carriers to build and maintain their own MPLS backbone. In the backbone, the CsC concept provides complete separation of the different service carriers' traffic.

A Service Carrier is a collection of Service (or customer-specific) Provider Edge routers (S-PEs), essentially forming a layer around the Backbone Carrier network. Service Carriers also include their respective Customer Edge (CE) routers. S-PE and CE routers can only belong to a single Service Carrier at any one time.

In essence, IPNet will consist of a Backbone Carrier, supporting various Service or Customer Carriers each retaining a level of autonomy (e.g. security, management, Quality of Service implementation) from the core. At a basic technical level, it means that any number of customer VPNs are embedded and treated as a single VPN within the backbone carrier infrastructure by means of multiple stacked MPLS labels, while preserving the customer's unique parameters, such as Quality of Service models.

Network resilience

Telkom's networks are generally viewed as three layers, ie access, edge and core. The different network elements are interconnected utilising Synchronous Digital Hierarchy (SDH), with the primary physical interconnecting medium being fibre.

The transport network equipment is connected in a mesh or ring topology, providing for redundancy. To further improve resilience, intelligent ASTN switches are deployed in the long haul network to provide automatic provisioning, routing, and restoration capability.

Generally, at the access, no resilience is present in the network architecture towards the edge other than physical protection at the SDH layer where end-to-end path protection, utilising 1+1 protection architecture, i.e. a working path and a hot standby protection path, has been deployed.

The traffic leaving or entering edges to or from the network is protected in the core. Core redundancy provides protection in edge to edge and edge to international destination set-ups. The degree of redundancy varies across the different technologies and networks.

Voice network

Dual connectivity exists between edge to core nodes and core to international gateway nodes. The transmission links between the edge and the core pair nodes are geographically separated. These links are protected to eliminate any single point of failure in the transport network. All links are designed to cater for the busy hour loads and have been implemented in a 50:50 load sharing fashion with each route limited to 80% utilisation.

In the event of a failure of an international gateway during the peak hour, about 38% of the international traffic will be lost. In the event of a failure of a core switch during the peak hour, about 38% of national and international traffic will be lost from the secondary layer of a particular region. Activation of disaster recovery procedures and plans to re-route traffic will further limit the loss of traffic. The Intelligent Network platforms, providing advance services, cater for protection of traffic under failure conditions.

Signalling

No risk exists from a national perspective as full redundancy has been implemented. Due to the fact that the international Signalling Transit Points are not connected as a mated pair to all international destinations, failure of an international gateway Signalling Transit Point may result in the loss of some international connections.

Data networks

At the core layer and between the core and the edge nodes, full resilience exists. Edge devices are connected to two core devices, located in physically diverse buildings. The connectivity between the edge and each core router as well as the core infrastructure is dimensioned to carry the full traffic load in the event of a link failure or core node failure. Edge to core, inter-core and edge to International destinations are therefore fully redundant.

Connectivity to international destinations is provided from two physically diverse nodes, through different cable landing stations and different submarine cable networks to multiple international nodes on different continents that are all interconnected using protected or restorable transmission systems. In the event of the loss of one of the local nodes, potentially 38% of the IP throughput traffic could be lost. Mechanisms will schedule traffic and prioritisation of traffic will take place.

Service level agreements are offered to clients to provide improved resilience from the customer site to the edge.

Power

Only 12V and 48V direct current (DC) equipment is utilised. Some alternating current (AC) equipment is used, mainly in the server environments, eg data centres and at sites where DC is not available, eg at customer service branches.

Operations centres, Core nodes, Edge nodes, International gateway nodes and any station carrying core or edge traffic have been defined as critical sites where a disruption of service cannot be tolerated. Power availability is ensured, using a combination of battery back up and AC standby plants.

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Operational review *(continued)*

Cost, efficiency and productivity management

Faced with competition eroding our revenue base, cost management continues to be a key element in creating shareholder value. Combined with the inflationary environment affecting our operating expenses, a number of once-off items impacted fixed-line expenditure including:

- R177 million expenses relating to the Vodacom transaction;
- R85 million impairment of Africa Online;
- R254 million impairment of Telkom Media; and
- R1.8 billion impairment of Multi-Links.

Fixed-line operating expenses increased 19.6% to R29.8 billion. Employee expenses increased by 8.1% to R8.0 billion, payments to other operators increased 9.2% to R7.5 billion, selling general and administrative expenses increased by 68.8% to R6.6 billion, service fees increased by 14.4% to R2.8 billion and operating leases decreased by 1.0% to R613 million. Depreciation, amortisation, impairment and write-offs increased by 16.8% to R4.4 billion resulting in an EBITDA margin of 25.8%. Excluding the Multi-Links, Telkom Media and Africa Online impairment the fixed-line adjusted EBITDA margin was 32.3%.

The Telkom reorganisation programme – Telkom Renaissance – improves profit and loss accountability throughout the organisation and will allow us to focus on efficient resource management and cost containment. In addition, the roll-out of our mobile network is expected to enable us to provide connectivity in a more cost effective manner in rural and high cable theft areas. Next Generation Network and mobile technology also allows us to replace expensive to maintain legacy equipment. We intend to expedite the retirement of costly legacy systems as a result of our growing Next Generation Network in order to reduce maintenance spend. We continue with the renegotiation of all supplier contracts and constructive engagement with labour unions. We are reviewing our IT investment strategy in order to ensure optimum levels of spend in line with our strategy and network investment. Inventories and capital work-in-progress are receiving considerable attention as we seek to lower just-in-time levels of investment and to monetise any excessive levels of assets.

Telkom is targeting an operating cost reduction of 10% over the following three financial years.

The Telkom Board is focusing on improving the cost efficiency and free cash flow profile of the company. It has reduced the initial five year capital expenditure budget by 40% to R34 billion and intends to reduce it further where possible.

Maintaining the quality of services to our customers

Improved customer service is vital to the success of Telkom into the future. Sustainable and profitable growth in the customer base requires creating and strengthening capabilities focused on managing customer relationships and learning from acquired customer information. This will allow Telkom to better manage the customer experience and anticipate customer needs.

Customer segmentation based on value is enabling Telkom to understand customers better in order to give additional value and services to customers. Surveys with our key customer segments have shown that service quality perception has improved in the small business, medium and large business and corporate and government sectors. The residential market perception survey indicates a stable rating.

Network service quality

We have made significant investments in our national network operations centre and our data centre, designed to increase our ability to identify and anticipate future customer needs more rapidly, and to provide appropriate solutions and services. In order to take advantage of economies of scale, we have consolidated our six voice installation and fault management centres into two centres to address faults, installation and service appointment sites, and have consolidated our six data installation and fault management centres into two centres.

Faults reported on residential, business and ADSL business services increased in the 2009 financial year mainly due to the 33% increase in the ADSL installed base during the 2009 financial year resulting in an increase in the number of reported faults, adverse weather conditions causing many areas to be flooded, mainly in the coastal areas of KwaZulu-Natal, Western Cape and Eastern Cape, and third party damage to Telkom cable infrastructure, roll-out of other providers' services, road extensions and other 2010 Soccer World Cup projects. In addition, many customers were affected by access equipment that failed following prolonged power outages. Data and ADSL Business services fulfilment performances improved following the introduction of more efficient workflow processes.

Faults cleared in 24 hours declined in the 2009 financial year due to the increased number of ADSL services. The ADSL installed base grew by 61% during the 2008 financial year. This growth resulted in an increase in the number of reported faults and impacted on the time taken to clear faults. This growth also impacted on data subrate services as they share ADSL resources. Network failures consist of cable breaks, cable theft and failures on other core network elements. We implemented a self install option for ADSL, which had a positive impact on ADSL installation.

We expect to continue to change the method in which we measure performance to align with changes in the information communication technology industry that focus more on broadband and data

The following table presents information regarding Telkom's service delivery measurements during the periods indicated.

	Year ended March 31,		
	2007	2008	**2009**
Residential voice			
% cleared in 24 hours	50	38	**32**
Faults per 1,000 lines	485	476	**650**
% installed within 28 working days initial timeframe – No build	84	91	**91**
% installed within 80 working days initial timeframe – Build	73	82	**80**
Business voice			
% cleared in 24 hours	66	50	**45**
Faults per 1,000 lines	328	264	**369**
% installed within 21 working days initial timeframe – No build	77	85	**87**
% installed within 70 working days initial timeframe – Build	81	84	**82**
Data subrate			
% cleared in 24 hours	84	93	**94**
Faults per 1,000 lines	870	875	**816**
% installed within 30 working days initial timeframe – No build	49	48	**64**
% installed within 90 working days initial timeframe – Build	54	79	**80**
ADSL business			
% cleared in 24 hours	33	42	**37**
Faults per 1,000 lines	575	575	**649**
% installed within 28 working days initial timeframe – No build	56	79	**91**
% installed within 60 working days initial timeframe – Build	68	66	**74**

services and also to support Telkom's customer centricity drive.

Competition

Competition in the South African fixed-line communications market is intense and is increasing as a result of the Electronic Communications Act and determinations issued by the Minister of Communications.

The new licensing framework included in the Electronic Communications Act is resulting in the market becoming more horizontally layered, with a large number of separate licences being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum. This will substantially increase competition in our fixed-line business.

We compete primarily on the basis of customer service, quality, reliability and price in those areas where we currently face competition and where we expect to compete for public-switched telecommunications services in the future.

We intend to introduce new products and services as well as tariff structures with the aim of maintaining and gaining revenue.

Mobile competition

Telkom competes for voice customers with the three existing mobile operators, Vodacom, MTN and Cell C. Vodacom, our previously 50% owned joint venture, was listed on the JSE on May 18, 2009. The sale and unbundling of our stake in Vodacom will further increase competition. MTN is a public company listed on the JSE Limited, and Cell C entered into a joint venture with Virgin Mobile which has further increased competition. Telkom also competes with service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks. In recent periods, our fixed-line business has experienced significant customer migration to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service. ICASA has initiated a review process of mobile termination rates aimed at reducing high mobile interconnect charges which, once completed, is also likely to impact Telkom's own termination rates and interconnection revenues.

Data competition

Neotel, the former VANS providers such as Internet Solutions and the three existing mobile operators are our main competitors in the data market. Each of Vodacom, MTN and Cell C currently offer 3G, HSPA and EDGE mobile broadband data services that directly compete with our services. Neotel is entering the market through competitive pricing and niche products such as fibre connections and rings. The mobile operators have also stated their intention to start competing in the fixed-line market through building their own infrastructure. The former VANS provide competitive internet protocol virtual private networks and internet service provider services to the business segment.

Operational review *(continued)*

Consumer orientated internet service providers such as MWEB are our main competitors in the consumer internet market.

In addition, our data services have faced increased competition from iBurst, a wireless competitor that offers competing broadband services and, to a lesser extent, Sentech, which owns and operates satellite transmission systems, a packaged, always-on bidirectional broadband service via satellite and a wireless high-speed internet service offering. The mobile data providers have reduced prices significantly, leading to price competition in our data markets. We believe the former VANS operators and internet service providers will increasingly move into the corporate and voice services market, while telecommunications service providers aim to expand into the managed data network and international traffic markets. We anticipate that alliances will be forged between the former VANS operators, telecommunications service providers and content providers to concentrate on the delivery of converged services within the next few years.

Domestically, expansion into new markets by the former VANS and mobile companies will occur, while the development of new products and services will intensify competition. We expect competition to further increase as a result of consolidation in the market, with competitors growing through mergers, acquisitions and alliance-forming activity. The entry of multi-national corporations into South Africa is expected to be a further incentive for global communications operators, which already service these corporations abroad, to establish or enhance their presence in South Africa.

Competition in the data market is expected to increase as a result of the VANS providers' ability to deliver complex managed data solutions and integrated information communications technology solutions, as well as expected future alliances between the VANS and fixed and mobile operators. Technological advances will also enable more and more convergence and integration which in turn will enable more effective competition and usage of bandwidth.

As competition increases in the South African market, South African telecommunication service providers, including Telkom, are expected to increasingly look to other developing markets for new revenue streams, particularly in sub-Saharan Africa. Internationally, Telkom's new Africa Online business already competes with Internet Solutions and MTN Network Solutions. In addition, Verizon is already present in a number of other African markets.

Fixed-line voice competition

In September 2004, the Minister of Communications granted an additional licence to provide public-switched telecommunications services to Neotel. Neotel was 30% owned by Transtel and Esitel, which are beneficially owned by the South African government and other strategic equity investors including 26% beneficially owned by TATA Africa Holdings (Pty) Ltd, a member of the large Indian conglomerate with information and communications operations. On March 19, 2008 Neotel announced that the Competition Tribunal of South Africa had approved its acquisition of Transtel without any conditions. TATA Africa Holdings (Pty) Ltd has subsequently acquired the 30% equity stake beneficially owned by the South African government, increasing its shareholding in Neotel to 56%. Neotel was licensed on December 9, 2005 and commercially launched on August 31, 2006. Neotel commenced providing services to large corporations and other licensees at the beginning of the 2007 calendar year.

On April 25, 2008, Neotel announced that the first of its consumer products were available in limited parts of Johannesburg and Pretoria. Government has created an infrastructure company, Broadband Infraco, which stated that it will provide inter-city bandwidth at cost based prices to Neotel, and later to the rest of the industry. This will further compete with our existing communications network. As an alternative provider of communications infrastructure, Broadband Infraco will also be involved in some of the undersea cable projects. Broadband Infraco was established by an Act of Parliament: the Broadband Infraco Act, No 33 of 2007. The Electronic Communications Act, No 36 of 2005, has been amended by the Electronic Communications Amendment Act, No 37 of 2007, to permit electronic communications licences to be issued to Broadband Infraco.

A process to issue additional licences to small business operators to provide telecommunications services in underserviced areas with a teledensity of less than 5% commenced in 2005 and is continuing. The Minister of Communications has identified 27 of these underserviced areas. ICASA has issued licences to successful bidders in seven of these areas and the Minister has issued invitations to apply for licences in 14 additional areas. In August 2006 ICASA recommended to the Minister that licences be granted to successful applicants in 13 of these areas. While it was expected that further licences would be issued in the 2007 calendar year, none were issued. The Minister of Communications has issued a policy directive to ICASA directing it to, where there is more than one licence in a province, merge the licences and issue one Provincial Under-Serviced Area Network Operator (PUSANO) licence. None of these consolidated licences have yet been issued by ICASA. In his budget speech of June 26, 2009, the Minister of Communications indicated the intention to review the policy in relation to USALs.

Telkom's fixed-line voice business is expected to be further impacted by continuing developments of Voice over Internet Protocol (VoIP) and by the roll-out of limited mobility services. Wireless operator iBurst has started to offer portable voice services over its wireless network. Additionally, VoIP and other operators with international gateway licences are expected to create increased competition for Telkom's fixed-line voice business in carrying international traffic in and out of South Africa.

We expect that the introduction of number portability and carrier pre-selection could further enhance competition in our fixed-line voice business and increase our churn rates. As competition intensifies, the main challenges our fixed-line voice business faces are continuing to improve customer loyalty through improved services and products, and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate pressure on our overall average tariffs and a reduction in our market share.

Three year financial review

for the years ended March 31

Amounts in accordance with IFRS (in ZAR millions, except percentages)	2007	2008	**2009**	CAGR (%)
Fixed-line segment financial data				
Revenue	32,345	32,572	**33,659**	2.0
Operating profit	8,596	8,107	**4,334**	(29.0)
Operating profit margin (%)	26.6	24.9	**12.9**	(30.4)
EBITDA	12,178	11,839	**8,692**	(15.5)
EBITDA margin (%)	37.7	36.3	**25.8**	(17.3)
Capital expenditure to revenue (%)	20.4	20.9	**19.9**	(1.2)
Multi-Links segment financial data				
Revenue	–	845	**1,900**	124.9
Operating profit	–	(97)	**(522)**	438.1
Operating profit margin (%)	–	(11.5)	**(27.5)**	139.3
EBITDA	–	(11)	**(226)**	1,954.5
EBITDA margin (%)	–	(1.3)	**(11.9)**	813.7
Capital expenditure to revenue (%)	–	155.3	**146.9**	(5.4)
Other segment financial data				
Revenue	873	1,040	**1,214**	17.9
Operating profit	411	453	**477**	7.7
Operating profit margin (%)	47.1	43.6	**39.3**	(8.6)
EBITDA	430	486	**527**	10.7
EBITDA margin (%)	49.3	46.7	**43.4**	(6.1)
Capital expenditure to revenue (%)	5.0	32.1	**13.8**	66.1
Financial review (Group)				
Income statement data				
Continuing operations				
Operating revenue	32,441	33,611	**35,940**	5.3
Operating expenses (including depreciation)	23,028	25,014	**29,895**	13.9
EBITDA	13,352	13,203	**11,668**	(6.5)
Operating profit	9,751	9,069	**6,388**	(19.1)
Profit before tax	9,093	7,681	**3,726**	(36.0)
Profit from continuing operations	6,290	5,034	**2,066**	(42.7)
Basic earnings per share (cents)	1,204.7	963.7	**407.4**	(41.8)
Headline earnings per share (cents)	1,235.5	1,028.9	**557.0**	(32.9)
Dividend per share (cents)	900.0	1,100.0	**660.0**	(14.4)
Total operations				
Basic earnings per share (cents)	1,681.0	1,565.0	**832.8**	(29.6)
Headline earnings per share (cents)	1,710.7	1,634.8	**994.6**	(23.8)
Balance sheet data				
Total assets	59,146	70,372	**85,779**	20.4
Current assets	10,376	12,609	**11,287**	4.3
Non-current assets	48,770	57,763	**51,009**	2.3
Assets of disposal groups held for sale	n/a	n/a	**23,482**	
Total liabilities	27,138	37,035	**48,673**	33.9
Current liabilities	18,584	21,931	**17,452**	(3.1)
Non-current liabilities	8,554	15,104	**15,348**	33.9
Liabilities of disposal groups held for sale	n/a	n/a	**15,873**	
Shareholders' equity	32,008	33,337	**37,106**	7.7
Continuing operations				
Capital expenditure	6,623	8,428	**9,631**	20.6
Total debt	11,034	18,365	**18,630**	29.9
Net debt	10,026	16,617	**15,497**	24.3
Total operations				
Capital expenditure	10,246	11,900	**13,234**	13.6
Net debt	10,026	16,617	**23,047**	51.6
Cash flow data				
Cash flow from operating activities	9,356	10,603	**11,432**	10.5
Cash flow from investing activities	(10,412)	(14,106)	**(17,005)**	27.8
Cash flow from financing activities	(2,920)	2,943	**7,093**	–
Capital expenditure excluding intangibles	8,648	10,108	**8,725**	0.4
Operating free cash flow	3,728	2,229	**(2,237)**	–
Financial ratios				
Continuing operations				
Operating profit margin (%)	30.1	27.0	**17.8**	(23.1)
EBITDA margin (%)	41.2	39.3	**32.5**	(11.2)
Net profit margin (%)	19.4	15.0	**5.7**	(45.5)
Net debt to EBITDA	n/a	n/a	**1.3**	–
After tax operating return on assets (%)	n/a	n/a	**5.0**	–
Capital expenditure to revenue (%)	20.4	25.1	**26.8**	14.6
Total operations				
Net debt to EBITDA	0.5	0.8	**1.2**	54.9
After tax operating return on assets (%)	22.7	18.3	**9.7**	(34.6)

Financial review

Results of operations

The Telkom Group added Multi-Links as a new segment to its financial reporting for the 2009 financial year. As a result, the Telkom Group's four reporting segments for the 2009 financial year are fixed-line, Multi-Links, mobile and other. The other segment includes Telkom's Trudon, formerly known as TDS Directory Operations, and Africa Online subsidiaries. The information in this annual report has been updated to reflect the above changes to Telkom's reporting segments.

Telkom concluded the disposal and sale of Vodacom, its mobile segment that provided mobile services through its 50% joint venture interest in Vodacom, effective as of April 20, 2009. In addition, Telkom's Board of directors determined to dispose of Swiftnet, a wholly owned subsidiary that provides wireless data services, and determined to wind up its Telkom Media subsidiary. The Telkom Group's consolidated financial statements and information included herein reflects the restatement to Telkom's consolidated financial statements in prior years as a result of these events to disclose the effect of discontinued operations and the disposal of the subsidiaries held for sale as follows:

- Income statement data for all the periods have been restated to reflect our 50% share of Vodacom's results, our 100% share of Swiftnet's results and our 75% share of Telkom Media's results as discontinued operations in accordance with IFRS5; and
- Balance sheet data for only the year ended March 31, 2009 reflect our 50% share of Vodacom's results and our 100% share of Swiftnet's results as discontinued operations in accordance with IFRS5.

The discussion of the business below has been revised from previous years to reflect the changes to Telkom's segments and its discontinued operations.

Year ended March 31, 2009 compared to year ended March 31, 2008 and year ended March 31, 2007

Consolidated results

The following table shows information related to our operating revenue, other income, operating expenses, operating profit, operating profit margin, profit for the year, profit margin, EBITDA and EBITDA margin for the periods indicated.

The Board has decided to delist from the New York Stock Exchange. Maintaining a listing in the United States is expensive and takes considerable management time. The methodology employed and discipline gained from compliance with the Sarbanes-Oxley reporting requirements will be retained, where appropriate, to ensure strict corporate governance compliance and transparent financial reporting.

Telkom is comfortable that the JSE provides sufficient access to capital from both South African and global investors.

Financial review *(continued)*

Telkom Group's segmental results Year ended March 31, (in millions, except percentages)	2007 ZAR	2007 %	2008 ZAR	2008 %	**2009 ZAR**	**2009 %**	2008/2007 % change	**2009/2008 % change**
Operating revenue	32,441	100.0	33,611	100.0	**35,940**	**100.0**	3.6	**6.9**
Fixed-line	32,345	99.7	32,572	96.9	**33,659**	**93.7**	0.7	**3.3**
Multi-Links	–	–	845	2.5	**1,900**	**5.3**	–	**124.9**
Other	873	2.7	1,040	3.1	**1,214**	**3.4**	19.1	**16.7**
Intercompany eliminations	(777)	(2.4)	(846)	(2.5)	**(833)**	**(2.4)**	8.9	**(1.5)**
Other income[1]	338	100.0	472	100.0	**343**	**100.0**	39.6	**(27.3)**
Fixed-line	334	98.8	497	105.3	**524**	**152.8**	48.8	**5.4**
Multi-Links	–	–	–	–	**–**	**–**	–	**–**
Other	50	14.8	61	12.9	**64**	**18.6**	22.0	**4.9**
Intercompany eliminations	(46)	(13.6)	(86)	(18.2)	**(245)**	**(71.4)**	87.0	**184.9**
Operating expenses	23,028	100.0	25,014	100.0	**29,895**	**100.0**	8.6	**19.5**
Fixed-line	24,083	104.6	24,962	99.7	**29,849**	**99.8**	3.6	**19.6**
Multi-Links	–	–	942	3.8	**2,422**	**8.1**	–	**157.1**
Other	512	2.2	648	2.6	**801**	**2.7**	26.6	**23.6**
Intercompany eliminations	(1,567)	(6.8)	(1,538)	(6.1)	**(3,177)**	**(10.6)**	(1.9)	**106.6**
Operating profit	9,751	100.0	9,069	100.0	**6,388**	**100.0**	(7.0)	**(29.6)**
Fixed-line	8,596	88.2	8,107	89.4	**4,334**	**67.8**	(5.7)	**(46.5)**
Multi-Links	–	–	(97)	(1.1)	**(522)**	**(8.2)**	–	**(438.1)**
Other	411	4.2	453	5.0	**477**	**7.5**	10.2	**5.3**
Intercompany eliminations	744	7.6	606	6.7	**2,099**	**32.9**	(18.5)	**246.4**
Operating profit margin (%)	30.1		27.0		**17.8**		(10.3)	**(34.1)**
Fixed-line	26.6		24.9		**12.9**		(6.4)	**(48.2)**
Multi-Links	–		(11.5)		**(27.5)**		–	**139.1**
Other	47.1		43.6		**39.3**		(7.4)	**(9.9)**
Profit for the year attributable to equity holders of Telkom								
Profit margin (%)								
EBITDA[2]	13,352	100.0	13,203	100.0	**11,668**	**100.0**	(1.1)	**(11.6)**
Fixed-line	12,178	91.2	11,839	89.7	**8,692**	**74.5**	(2.8)	**(26.6)**
Multi-Links	–	–	(11)	(0.1)	**(226)**	**(1.9)**	–	**(1,954.5)**
Other	430	3.2	486	3.7	**527**	**4.5**	13.0	**8.4**
Intercompany eliminations	744	5.6	889	6.7	**2,675**	**22.9**	19.5	**200.9**
EBITDA margin (%)	41.2		39.3		**32.5**			

Notes:

(1) *Other income includes profit and losses on disposal of investments, property, plant and equipment and intangible assets.*

(2) *EBITDA represents profit for the year, which includes profit on sale of investments, before taxation, finance charges, investment income and depreciation, amortisation, impairments and write-offs. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant taxation regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same. In addition, the calculation of EBITDA for the maintenance of our covenants contained in our TL20 bond is based on accounting policies in use, consistently applied, at the time the indebtedness was incurred. As a result, EBITDA for purposes of those covenants is not calculated in the same manner as it is calculated in the above table.*

EBITDA can be reconciled to operating profit as follows:

	Year ended March 31,		
	2007	2008	**2009**
(in millions)	ZAR	ZAR	**ZAR**
Fixed-line			
EBITDA	12,178	11,839	**8,692**
Depreciation, amortisation, impairments and write-offs	(3,582)	(3,732)	**(4,358)**
Operating profit	8,596	8,107	**4,334**
Multi-Links			
EBITDA	–	(11)	**(226)**
Depreciation, amortisation, impairments and write-offs	–	(86)	**(296)**
Operating profit	–	(97)	**(522)**
Other			
EBITDA	430	486	**527**
Depreciation, amortisation, impairments and write-offs	(19)	(33)	**(50)**
Operating profit	411	453	**477**

Operating revenue

Operating revenue increased in the years ended March 31, 2009 and 2008 due to increased operating revenue in our fixed-line, Multi-Links and other segment. The increase in fixed-line operating revenue of 3.3% and 0.7% in the 2009 and 2008 financial years, respectively, was primarily due to continued growth in data services, higher revenue from interconnection and subscription based calling plans, partially offset by lower traffic revenue. The increase in revenue in our Multi-Links segment in the 2009 financial year was primarily due to subscriber growth, an increase in domestic traffic volumes as well as increased data revenue. The increase in revenue in our Multi-Links and other segment in the 2008 financial year was primarily due to the inclusion in the 2008 fiscal year of revenue generated by our newly acquired subsidiaries, Multi-Links and Africa Online.

Other income

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets. The decrease in fixed-line other income in the 2009 financial year was primarily due to the gain on disposal of properties in the 2008 financial year. The increase in fixed-line other income in the 2008 financial year was primarily due to the disposal of more properties at a higher value during the 2008 fiscal year.

Operating expenses

Operating expenses increased in the years ended March 31, 2009 and 2008 as a result of increased operating expenses in Multi-Links and fixed-line segments.

The increase in the Multi-Links segment's operating expenses in the 2009 financial year was primarily due to increased cost of sales and associated subsidies as a result of increased sales volumes, increased advertising and promotional expenditure and an increase in expatriate fees as a result of an increase in staff seconded from Telkom during the year. The increase in the Multi-Links segment's operating expenses in the 2008 financial year was primarily due to the inclusion of operating expenses relating to our newly acquired subsidiary, Multi-Links, which impacted all expense categories.

The increase in the other segment's operating expenses in the 2009 financial year was mainly contributed by the operating expenditure of UUNET, Africa Online's 40% joint venture. Increases in the other segment's operating expenses in the 2008 financial year were primarily driven by significant increases in payments to other operators, employee expenses, selling, general and administrative expenses, depreciation, amortisation impairments and write-offs, operating leases and service fees.

The increase in fixed-line operating expenses in the 2009 financial year was primarily due to increased selling, general and administrative expenses, payment to other network operators, depreciation, amortisation impairments and write-offs, employee expenses and service fees. Selling, general and administrative expenses increased primarily due to the impairment of the Multi-Links investment in the 2009 financial year, increased materials and maintenance expenses and higher bad debts. Depreciation, amortisation, impairments and write-offs increased in the year ended March 31, 2009 primarily as a result of higher amortisation of intangible assets and increased depreciation due to the on-going investment in telecommunications network equipment and data processing equipment. Payments to other operators increased primarily due to increased payments to international operators due to increased switch hubbing volumes and higher exchange rates and settlement rates. Employee expenses increased in the year ended March 31, 2009 primarily due to a higher provision for medical aid for pensioners as a result of increased interest costs, higher salaries and wages as a result

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of average annual salary increases of 10.86% as well as higher leave benefits. Service fees increased in the year ended March 31, 2009 primarily due to consultancy fees relating to the Vodacom sale and unbundling transaction and higher security costs to secure the copper network.

The increase in fixed-line operating expenses in the 2008 financial year was primarily due to increased payments to other operators, higher employee expenses and service fees, partially offset by lower leases and selling, general and administrative expenses. Payments to other operators increased primarily due to increased calls from our fixed-line network to mobile and international operators as result of higher call volumes from our fixed-line network to the mobile and international networks. Employee expenses increased due to higher salaries and wages as a result of average annual salary increases and higher share compensation expenses, partially offset by a reduced provision for team award and a reduction in the number of employees. Service fees increased primarily due to increased property management costs mainly related to increased electricity usage, electricity rates and taxes, payments to consultants to explore local and international investment opportunities, higher security costs due to increases in contract prices and maintenance and monitoring of the cable alarm system and legal fees related to Telcordia. Operating leases decreased in the year ended March 31, 2008 primarily due to a discount received on the extension of our vehicle lease and a reduction in the number of vehicles from 9,694 at March 31, 2007 to 8,792 at March 31, 2008. Selling, general and administrative expenses decreased primarily due to the provision for probable liabilities in the Telcordia dispute in the 2007 financial year, which were not increased significantly in the 2008 financial year, and lower marketing expense, partially offset by the R217 million impairment of the Telkom Media loan in the 2008 financial year – increased materials and maintenance expenses and higher bad debts. Depreciation, amortisation, impairments and write-offs increased in the year ended March 31, 2008 primarily as a result of higher amortisation of intangible assets and increased depreciation due to the on-going investment in telecommunications network equipment and data processing equipment, partially offset by lower asset write-offs.

Operating profit

Operating profit decreased in the 2009 and 2008 financial years due to decreased operating profit in the fixed-line and Multi-Links segments as a result of increased operating expenditure. As a result, the fixed-line operating profit margin decreased from 26.6% in the 2007 financial year to 24.9% in the 2008 financial year and decreased to 12.9% in the 2009 financial year. The operating margin for our Multi-Links segment decreased significantly from a negative margin of 11.5% in the 2008 financial year to a negative operating margin of 25.7% in the 2009 financial year. The operating profit margin for our other segment decreased from 47.1% in the 2007 financial year to 43.6% in the 2008 financial year and decreased to 39.3% in the 2009 financial year.

Investment income

Investment income consists of interest received on short-term investments and bank accounts and income received from our investments. Group investment income increased 7.7% to R181 million in the 2009 financial year and decreased 15.6% to R168 million in the 2008 financial year from R199 million in the 2007 financial year. The increase in the 2009 financial year was primarily due to increased short-term investments and interest rates. The decrease in the 2008 financial year was primarily due to lower interest received from fixed deposits and repurchase agreements mainly due to lower cash balances.

Finance charges and fair value movements

Finance charges and fair value movements include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses.

The following table sets forth information related to our finance charges and fair value movements for the periods indicated.

(in millions, except percentages)	2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
	Finance charges and fair value movements	Year ended March 31,			
Interest expense	1,142	1,543	**1,732**	35.1	**12.2**
Local loans	1,303	1,700	**1,895**	30.5	**11.5**
Foreign loans	–	18	**–**	–	**–**
Finance charges capitalised	(161)	(175)	**(163)**	8.7	**(6.9)**
Foreign exchange losses and fair value movements	(285)	13	**1,111**	(104.6)	**–**
Fair value (adjustments) on derivative instruments	(344)	(80)	**268**	(76.7)	**(435.0)**
Foreign exchange losses	59	93	**843**	57.6	**806.5**
Total finance charges	857	1,556	**2,843**	81.6	**82.7**

During the year ended March 31, 2009, finance charges increased primarily due to higher foreign exchange losses and fair value movements incurred by Multi-Links on foreign denominated loans and creditor's balances as a result of the devaluation of the naira and the mark to market valuation of the Multi-Links put option as well as increased interest paid as a result of higher debt levels and interest rates. During the year ended March 31, 2008, finance charges increased primarily due to a higher interest expense resulting from higher debt levels in the fixed-line, Multi-Links and other segments, and foreign exchange losses and fair value movements decreased primarily due to currency movements and fair value losses on the put option we have in place relating to Multi-Links. This was partially offset by fair value adjustments as a result of the significant weakness of the rand against international currencies.

Taxation

Our consolidated taxation expense from continuing operations decreased 37.3% to R1,660 million in the year ended March 31, 2009 and decreased 5.6% to R2,647 million in the year ended March 31, 2008 from R2,803 million in the year ended March 31, 2007. The decrease in the 2009 financial year was primarily due to the decrease in the STC charge as a result of lower dividends declared as compared to the previous year and the R454 million deferred taxation asset that was raised on the capital gains tax base cost of the 15% investment in Vodacom, that are held for sale and will be utilised for the future capital gains tax liability of the sale transaction. This was partially offset by higher non-deductible expenditure relating to the impairment of Multi-Links and Africa Online. The decrease in the 2008 financial year was primarily due to higher non-deductible expenses relating mostly to the impairment of Telkom Media and Africa Online assets, the increase in STC taxation credits utilised in respect of the repurchase of Telkom shares, the utilisation of the Multi-Links assessed losses and the impact of the taxation rate change on deferred taxation from 29% to 28% with effect from April 1, 2008.

The following table sets forth information related to our effective taxation rate for the Telkom Group, Telkom Company and Vodacom for the periods indicated:

(in percentages)	2007 %	2008 %	**2009 %**	2008/2007 % change	**2009/2008 % change**
	Year ended March 31,				
Effective tax rate					
Telkom Group – continuing operations	30.8	34.5	**44.5**	12.0	**29.3**
Telkom Company	24.2	24.6	**8.9**	1.7	**(63.8)**
Vodacom	36.9	34.1	**39.5**	(7.6)	**15.8**

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The increase in the Telkom Group effective taxation rate in the 2009 financial year was mainly due to higher non-deductible expenditure relating to the impairment of Multi-Links and Africa Online and Vodacom transaction costs. The increase in the Telkom Group effective taxation rate in the 2008 financial year was mainly due to higher non-deductible expenses relating mostly to the impairment of Telkom Media and Africa Online assets, the increase in STC taxation credits utilised in respect of the repurchases of Telkom shares and the impact of the taxation rate change on deferred taxation from 29% to 28% with effect from April 1, 2008.

The decrease in the Telkom Company effective taxation rate in the 2009 financial year was mainly due to the R1,280 million deferred taxation asset that was raised on the capital gains tax base cost of the 15% investment in Vodacom, that are held for sale and will be utilised for the future capital gains tax liability of the sale transaction, partially offset by the R1,843 million impairment of the Multi-Links investment, R254 million impairment of the Telkom Media loan and R85 million impairment of the Africa Online investment as well as Vodacom transaction costs. The higher effective taxation rate for Telkom Company in the year ended March 31, 2008 was primarily due to higher non-deductible expenses relating to the R217 million impairment of the Telkom Media loan and an increase of R198 million in secondary taxation on companies, partially offset by higher exempt income resulting from dividends received from Vodacom and other subsidiaries. Vodacom's effective taxation rate increased in the 2008 financial year primarily due to the disallowable expenses relating to the BEE deal and non-deductible interest expenses. Vodacom's effective taxation rate decreased in the 2008 financial year primarily due to the decrease in the rate of secondary taxation on companies from 12.5% to 10%.

Minority interests

Minority interests in the income of subsidiaries decreased significantly to R77 million in the year ended March 31, 2009 primarily due to an increase in the Multi-Links minorities' share in net losses. Minority interests in the income of subsidiaries decreased 3.0% to R197 million in the year ended March 31, 2008 primarily due to the purchase of the remaining equity interest of 30% in Smartphone on August 31, 2007, partially offset by an increase in profits generated by our Telkom Directory Services subsidiary and Vodacom Tanzania.

Profit for the year attributable to equity holders of Telkom

Profit for the year attributable to equity holders of Telkom decreased to R4,170 million in the 2009 financial year primarily due to decreased operating profit in our Multi-Links, fixed-line and mobile segments, partially offset by increased operating profit in our other segment. Higher finance charges were partially offset by lower taxation and higher investment income. Profit for the year attributable to equity holders of Telkom decreased to R7,975 million in the 2008 financial year primarily due to decreased operating profit in our fixed-line and other segments, partially offset by increased operating profit in our mobile segment. Higher finance charges and lower investment income were partially offset by lower taxation.

Fixed-line segment

The following is a discussion of the results of operations from our fixed-line segment before eliminations of intercompany transactions with the mobile and other segments. Our fixed-line segment is our largest segment based on revenue and profit contribution.

Fixed-line operating revenue

Our fixed-line operating revenue is derived principally from fixed-line subscriptions and connections; traffic, which comprises local and long distance traffic, fixed-to-mobile traffic, international outgoing traffic and international voice over internet protocol services; and interconnection, which comprise terminating and hubbing traffic. We also derive fixed-line operating revenue from our data business, which includes data transmission services, managed data networking services and internet access and related information technology services.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value-added services and free or discounted rates on calls. The access line rentals and value-added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Subscription based on calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

The following table shows operating revenue for our fixed-line segment broken down by major revenue streams and as a percentage of total revenue for our fixed-line segment and the percentage change by major revenue stream for the periods indicated.

Fixed-line operating revenue Year ended March 31, (in millions, except percentages)	2007 ZAR	2007 %	2008 ZAR	2008 %	**2009 ZAR**	**2009 %**	2008/ 2007 % change	**2009/ 2008 % change**
Subscriptions and connections	6,286	19.4	6,330	19.4	**6,614**	**19.7**	0.7	**4.5**
Traffic	16,740	51.8	15,950	49.0	**15,323**	**45.5**	(4.7)	**(3.9)**
Local	4,832	14.9	4,076	12.6	**3,634**	**10.8**	(15.6)	**(10.8)**
Long distance	2,731	8.5	2,252	6.9	**2,036**	**6.0**	(17.5)	**(9.6)**
Fixed-to-mobile	7,646	23.6	7,557	23.2	**7,420**	**22.0**	(1.2)	**(1.8)**
International outgoing	988	3.1	986	3.0	**933**	**2.8**	(0.2)	**(5.4)**
Subscription based calling plans	543	1.7	1,079	3.3	**1,300**	**3.9**	98.7	**20.5**
Interconnection	1,639	5.1	1,757	5.4	**2,084**	**6.2**	7.2	**18.6**
Data	7,489	23.1	8,308	25.5	**9,310**	**27.6**	10.9	**12.1**
Sundry revenue	191	0.6	227	0.7	**328**	**1.0**	18.8	**44.5**
Fixed-line operating revenue	32,345	100.0	32,572	100.0	**33,659**	**100.0**	0.7	**3.3**

Fixed-line operating revenue increased in the 2009 financial year primarily due to continued growth in data services, higher revenue from interconnection services and subscriptions and connections partially offset by a decrease in traffic revenue, particularly local and long distance traffic revenue partially offset by an increase in traffic revenue from subscription based calling plans. Fixed-line operating revenue increased in the 2008 financial year primarily due to continued growth in data services and higher revenue from subscription based calling plans, interconnection and subscriptions and connections, partially offset by a decrease in traffic revenue, particularly local and long distance traffic revenue.

Fixed-line operating revenue was adversely impacted in both the 2009 and 2008 financial years due to a decrease in the number of residential post-paid PSTN lines primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections, and a decrease in the number of prepaid PSTN lines as a result of customer migration to mobile services and our residential post-paid PSTN services to enable access to subscription based calling plans and was positively impacted by our increase in ISDN channels, ADSL services and, to a lesser extent, business post-paid PSTN lines. In addition, traffic was adversely affected in both years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up traffic being substituted by our ADSL service, as well as the decrease in the number of prepaid and residential post-paid PSTN lines and increased competition in our payphones business. As a result, traffic declined 7.6% in the 2009 financial year and 8.2% in the 2008 financial year. Revenue per fixed access line increased 2.1% to R5,349 in the 2009 financial year from R5,250 in the 2008 financial year primarily due to a 1.4% decrease in the average number of access lines and increased interconnection and subscriptions and connection revenue partially offset by lower traffic revenue. Revenue per fixed access line decreased 0.5% to R5,250 in the 2008 financial year from R5,275 in the 2007 financial year primarily due to the decline in traffic tariffs and local traffic volumes, partially offset by increased subscription based calling plans, interconnection and subscriptions and connections tariffs.

Subscriptions and connections. Revenue from subscriptions and connections consists of revenue from connection fees, monthly rental charges, value-added voice services and the sale and rental of customer premises equipment for post-paid and prepaid PSTN lines, including ISDN channels and private payphones. Subscriptions and connections revenue is principally a function of the number and mix of residential and business lines in service, the number of private payphones in service and the corresponding charges. The following table sets forth information related to our fixed-line subscription and connection revenue during the periods indicated.

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	Fixed-line subscription and connection revenue Year ended March 31,				
	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Total subscriptions and connections revenue (ZAR millions, except percentages)	6,286	6,330	**6,614**	0.7	**4.5**
Total subscription access lines (thousands, except percentages)[1]	4,490	4,395	**4,319**	(2.1)	**(1.7)**
Postpaid					
PSTN[2]	2,971	2,893	**2,769**	(2.6)	**(4.3)**
ISDN channels	718	754	**781**	5.0	**3.6**
Prepaid PSTN	795	743	**766**	(6.5)	**3.1**
Private payphones	6	5	**3**	(16.7)	**(40.0)**

Notes:

(1) Total subscription access lines comprise PSTN lines, including ISDN lines and private payphones, but excluding internal lines in service and public payphones. Each analogue PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.

(2) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fibre.

Revenue from subscriptions and connections increased in the year ended March 31, 2009 mainly due to increased tariffs as well as an increase in the number of ISDN lines and, to a lesser extent, residential prepaid PSTN lines, partially offset by lower business and residential post-paid PSTN lines. The average monthly prices for subscriptions increased by 11.0% on August 1, 2008. Revenue from subscriptions and connections increased in the year ended March 31, 2008 mainly due to increased tariffs as well as an increase in the number of ISDN lines and, to a lesser extent, business post-paid PSTN lines, partially offset by lower residential post-paid PSTN lines and prepaid PSTN lines. The average monthly prices for subscriptions increased by 8.3% on August 1, 2006 and 12.0% on August 1, 2007.

The decrease in the number of residential post-paid PSTN lines in service in both the 2009 and 2008 financial years was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections. The increase in the number of post-paid ISDN channels was driven by increased demand for higher bandwidth and functionality. The increase in prepaid PSTN lines in the 2009 financial year was primarily due to our affordable Waya Waya offering. The decrease in prepaid PSTN lines in the 2008 financial year was primarily due to continued migration to mobile services and our residential post-paid PSTN services to enable access to subscription based calling plans. In addition, we relaxed our credit policies which led to fewer migrations of our postpaid customers to prepaid service in the 2008 financial year.

Traffic. Traffic revenue consists of revenue from local, long distance, fixed-to-mobile and international outgoing calls, international voice over internet protocol services and subscription based calling plans. Traffic revenue is principally a function of tariffs and the volume, duration and mix between relatively more expensive domestic long distance, international and fixed-to-mobile calls and relatively less expensive local calls.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value-added services and free or discounted rates on calls. The access line rentals and value-added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Subscription based on calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

Traffic includes dial-up internet traffic.

The following table sets forth information related to our fixed-line traffic revenue for the periods indicated.

	Fixed-line traffic revenue Year ended March 31,				
	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Local traffic revenue (ZAR millions, except percentages)	4,832	4,076	**3,634**	(15.6)	**(10.8)**
Local traffic (millions of minutes, except percentages)[1]	14,764	11,317	**8,822**	(23.3)	**(22.0)**
Long distance traffic revenue (ZAR millions, except percentages)	2,731	2,252	**2,036**	(17.5)	**(9.6)**
Long distance traffic (millions of minutes, except percentages)[1]	4,224	3,870	**3,631**	(8.4)	**(6.2)**
Fixed-to-mobile traffic revenue (ZAR millions, except percentages)	7,646	7,557	**7,420**	(1.2)	**(1.8)**
Fixed-to-mobile traffic (millions of minutes, except percentages)[1]	4,103	4,169	**4,126**	1.6	**(1.0)**
International outgoing traffic revenue (ZAR millions, except percentages)	988	986	**933**	(0.2)	**(5.4)**
International outgoing traffic (millions of minutes, except percentages)[1]	558	635	**622**	13.8	**(2.0)**
International voice over internet protocol (millions of minutes, except percentages)[2]	38	43	**34**	13.2	**(20.9)**
Subscription based calling plans revenue (ZAR millions, except percentages)	543	1,079	**1,300**	98.7	**20.5**
Subscription based calling plans (millions of minutes, except percentages)	1,896	2,997	**3,546**	58.1	**18.3**
Total traffic revenue (ZAR millions, except percentages)	16,740	15,950	**15,323**	(4.7)	**(3.9)**
Total traffic (millions of minutes, except percentages)[1]	29,323	26,926	**24,869**	(8.2)	**(7.6)**
Average total monthly traffic minutes per average monthly access line (minutes)[3]	456	417	**385**	(8.6)	**(7.7)**

Notes:

(1) Traffic, other than international voice over internet protocol traffic, is calculated by dividing total traffic revenue by the weighted average tariff during the relevant period. Traffic includes dial-up internet traffic.

(2) International voice over internet protocol traffic is based on the traffic reflected in invoices.

(3) Average monthly traffic minutes per average monthly access line are calculated by dividing the total traffic by the cumulative number of monthly access lines in the period.

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Traffic revenue declined in the 2009 financial year primarily due to lower traffic volumes partially offset by increased subscription based calling plans and revenue and higher average traffic tariffs. Traffic revenue declined in the 2008 financial year primarily due to lower average traffic tariffs and lower local traffic volumes partially offset by increased subscription based calling plans and revenue, international outgoing and fixed-to-mobile traffic.

ICASA approved a 2.1% reduction in the overall tariffs for services in the basket effective August 1, 2006, 1.2% reduction in the overall tariffs for services in the basket effective August 1, 2007 and a 2.4% increase in the overall tariffs for services in the basket effective August 1, 2008. Traffic was adversely affected in both the 2009 and 2008 financial years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up traffic being substituted by our ADSL service, as well as the decrease in the number of prepaid and residential post-paid PSTN lines and increased competition in our payphone business.

Local traffic revenue decreased in the 2009 and 2008 financial years primarily due to significantly lower traffic resulting primarily from internet call usage being substituted by our ADSL service, the substitution of calls placed using mobile services and discounts to business customers, partially offset by increased local off-peak tariffs and traffic volumes related to Telkom Closer packages. We increased penetration of subscription based calling plans to stimulate usage in the 2009 and 2008 financial years and to counteract mobile substitution, which effectively lowers the cost to the customer. On September 1, 2005, we decreased the price of local peak calls after the first unit by 5.0% to 38 SA cents per minute (VAT inclusive). This price was unchanged on August 1, 2006 and August 1, 2007. On August 1, 2008, we increased the price of local peak calls after the first unit by 3.2% to 39.2 SA cents per minute (VAT inclusive). On August 1, 2007, the price of local off-peak calls increased 4.1% on average. On August 1, 2008, the price of local off-peak calls increased 9.2% on average.

Long distance traffic revenue decreased in the 2009 and 2008 financial years mainly due to a decrease in average long distance tariffs and, to a lesser extent, decreased long distance traffic, partially offset by increased traffic related to Telkom Closer packages and Worldcall. We decreased our fixed-line long distance traffic tariffs by 10% on September 1, 2005, a further 10% on August 1, 2006 and a further 10% on August 1, 2007. The tariff remained unchanged on August 1, 2008.

Revenue from fixed-to-mobile traffic consists of revenue from calls made by our fixed-line customers to the three mobile networks in South Africa and is primarily a function of fixed-to-mobile tariffs and the number, the duration and the time of calls. Fixed-to-mobile traffic revenue decreased in the 2009 and 2008 financial years due to higher discount offered to customers in order to retain traffic, partially offset by higher traffic related to the Telkom Closer packages. The decrease in fixed-to-mobile traffic in the 2009 financial year was primarily due to an increase in the number of Telkom Closer customers, thereby decreasing the out of bundle volumes. The increase in fixed-to-mobile traffic in the 2008 financial year was primarily due to discounts offered to larger customers on fixed-to-mobile calls.

Revenue from international outgoing traffic consists of revenue from calls made by our fixed-line customers to international destinations and from international voice over internet protocol services and is a function of tariffs and the number, duration and mix of calls to destinations outside South Africa. In the 2009 financial year, international outgoing traffic revenue declined primarily as a result of a decrease in volumes mainly as a result of the increase in the number of Telkom Closer subscribers, thereby decreasing the out of bundle volumes. In the 2008 financial year, international outgoing traffic revenue declined primarily as a result of a decrease in the average international outgoing tariffs, partially offset by an increase in international outgoing traffic primarily as a result of the reduced tariffs. The average tariffs to all international destinations decreased by 11.1% on August 1, 2006 and by 9.0% on August 1, 2007. On August 1, 2008 the overall international tariffs remained unchanged, but tariffs to certain destinations were increased whilst others were decreased.

Revenue from subscription based calling plans includes revenue from Telkom's subscription based plans, Telkom Closer and Supreme Call, which are bundled products on post-paid PSTN lines that include discounted rates and free minutes for a fixed monthly subscription fee. In the 2009 financial year, revenue from subscription based calling plans increased by 20.5% primarily due to a 27.6% increase in customers subscribing to these packages. In the 2008 financial year, revenue from subscription based calling plans increased by 98.7% primarily due to a 69.4% increase in customers subscribing to these packages.

Interconnection. We generate revenue from interconnection services for traffic from calls made by other operators' customers that terminate on or transit through our network. Revenue from interconnection services includes payments from domestic mobile, domestic fixed and international operators regardless of where the traffic originates or terminates. The following table sets forth information related to interconnection revenue for the years indicated.

	Interconnection revenue Year ended March 31, 2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Interconnection revenue (ZAR millions, except percentages)	1,639	1,757	**2,084**	7.2	**18.6**
Interconnection revenue from domestic mobile operators (ZAR millions, except percentages)	816	838	**916**	2.7	**9.3**
Domestic mobile interconnection traffic (millions of minutes, except percentages)[1]	2,419	2,502	**2,484**	3.4	**(0.7)**
Interconnection revenue from domestic fixed-line operators (ZAR millions, except percentages)	–	28	**111**	–	**296.4**
Domestic fixed-line interconnection traffic (millions of minutes, except percentages)[2]	–	113	**415**	–	**267.3**
Interconnection revenue from international operators (ZAR millions, except percentages)	823	891	**1,057**	8.3	**18.6**
International interconnection traffic (millions of minutes, except percentages)[2]	1,321	1,280	**1,189**	(3.1)	**(7.1)**

Notes:

(1) Domestic mobile interconnection traffic, other than international outgoing mobile traffic, is calculated by dividing total domestic mobile and domestic fixed-line interconnection traffic revenue, respectively, by the weighted average domestic mobile and domestic fixed-line interconnection traffic tariffs during the relevant period. International outgoing mobile traffic is based on the traffic registered through the respective exchanges and reflected in interconnection invoices.

(2) International interconnection and domestic fixed-line interconnection traffic is based on the traffic registered through the respective exchanges and reflected on interconnection invoices.

Interconnection revenue from domestic mobile operators includes revenue for call termination and international outgoing calls from domestic mobile networks, as well as access to other services, such as emergency services and directory enquiry services. Interconnection revenue from domestic mobile operators increased in the 2009 and financial year mainly due to higher average tariffs, partially offset by lower volumes. Interconnection revenue from domestic mobile operators increased in the 2008 financial year mainly due to increased traffic from domestic mobile operators, partially offset by lower average tariffs on mobile international outgoing calls. Domestic mobile interconnection traffic decreased in the year ended March 31, 2009 primarily due to increased mobile-to-mobile calls bypassing our network and volumes lost to other international carriers. Domestic mobile interconnection traffic increased in the year ended March 31, 2008 primarily due to an overall increase in mobile calls as a result of a growing mobile market, partially offset by increased mobile-to-mobile calls bypassing our network. Interconnection revenue from domestic mobile operators includes fees paid to our fixed-line business by Vodacom of R462 million in the year ended March 31, 2009, R468 million in the year ended March 31, 2008 and R468 million in the year ended March 31, 2007. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation.

Interconnection revenue from domestic fixed-line operators includes fees paid by Neotel, underserviced area licence holders and value-added network service providers for call termination and international outgoing calls, as well as access to other services, such as emergency services and directory inquiry services. With effect from May 23, 2007, ICASA approved interconnection rates with Neotel, underserviced area licence holders and value-added network service providers for interconnection on our fixed-line network. In October 2007, Neotel commenced interconnection with Telkom. In July 2007, Telkom began interconnection with the underserviced area licence holders and in November 2007, value added network service providers. We expect inter-connection revenue to increase as a result of the entrance of Neotel and the further liberalisation of the South African telecommunications industry, which may partially mitigate declines in revenue in other areas.

Interconnection revenue from international operators includes amounts paid by foreign operators for the use of our network to terminate calls made by customers of such

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	Data services revenue Year ended March 31,				
	2007	2008	**2009**	2008/2007 % change	**2009/2008 % change**
Data services revenue (ZAR millions, except percentages)	7,489	8,308	**9,310**	10.9	**12.1**
Leased lines and other data revenue[1]	5,828	6,460	**7,452**	10.8	**15.4**
Leased line facilities revenues from mobile operators	1,661	1,848	**1,858**	11.3	**0.5**
Number of managed network sites (at period end)	21,879	25,112	**29,979**	14.8	**19.4**
Internet all access subscribers (at period end)	302,593	358,066	**423,196**	18.3	**18.2**
Total ADSL subscribers (at period end)[2]	255,633	412,190	**548,015**	61.2	**33.0**

Notes:

(1) Leased lines and other data revenue includes all data services revenue other than leased line facilities revenue from mobile operators.

(2) Excludes Telkom internal ADSL services of 1,029, 751 and 523 as of March 31, 2009, 2008 and 2007, respectively.

operators and payments from foreign operators for interconnection hubbing traffic through our network to other foreign networks. Interconnection revenue from international operators increased in the year ended March 31, 2009 primarily due to the weakening of the Rand against the SDR, the notional currency in which international rates are determined, and increased switched hubbing traffic volumes due to a reduction in tariffs to stimulate competitiveness. Interconnection revenue from international operators increased in the year ended March 31, 2008 primarily due to the weakening of the rand against the SDR, the notional currency in which international rates are determined, and increased switched hubbing traffic volumes due to a reduction in tariffs to stimulate competitiveness, partially offset by lower volumes and settlement rates.

Data. Data services comprise data transmission services, including leased lines and packet based services, managed data networking services and internet access and related information technology services. In addition, data services include revenue from ADSL. Revenue from data services is mainly a function of the number of subscriptions, tariffs, bandwidth and distance. The table above sets forth information related to revenue from data services for the periods indicated.

Our data services revenue increased in both the 2009 and 2008 financial years primarily due to increased revenue from data connectivity service, including ADSL connectivity and SAIX, internet access, and managed data networks, including VPN Supreme and increased revenue from leased line facilities from mobile operators. These increases were partially offset by decreased tariffs for leased line facilities to mobile operators and data connectivity services. Revenue from leased line facilities from mobile operators was relatively flat in the year ended March 31, 2009. Revenue from leased line facilities from mobile operators increased in the year ended March 31, 2008 primarily due to the roll-out of third generation and universal mobile telecommunications system products by the mobile operators.

Operating revenue from our data services included R1,059 million, R1,028 million and R907 million in revenue received by our fixed-line business from Vodacom in the years ended March 31, 2009, 2008 and 2007, respectively. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation.

Sundry revenue. Sundry revenue includes revenue relating to collocation of other licensed operators on Telkom owned properties, the sale of materials and revenue related to the recovery of costs for work performed on behalf of other licensed operators. Sundry revenue increased by 44.5% to R328 million in the 2009 financial year and 18.8% to R227 million in the 2008 financial year from R191 million in the 2007 financial year. The increase in the 2009 financial year was primarily due to revenue from the FIFA World Cup project. The increase in the 2008 financial year was primarily due to an increase in prices for collocation and recoveries.

Fixed-line operating expenses

The following table shows the operating expenses of our fixed-line segment broken down by expense category as a percentage of total revenue and the percentage change by operating expense category for the years indicated.

	Fixed-line operating expenses Year ended March 31,							
	2007		2008		**2009**		2008/	**2009/**
		% of		% of		**% of**	2007	**2008**
(in millions, except percentages)	ZAR	revenue	ZAR	revenue	**ZAR**	**revenue**	% change	**% change**
Employee expenses[1]	7,096	21.9	7,397	22.7	**7,999**	**23.8**	4.2	**8.1**
Payments to other network operators	6,461	20.0	6,902	21.2	**7,536**	**22.3**	6.8	**9.2**
Selling, general and administrative expenses[2][3]	3,976	12.3	3,899	11.9	**6,582**	**19.5**	(1.9)	**68.8**
Service fees	2,206	6.8	2,413	7.4	**2,761**	**8.2**	9.4	**14.4**
Operating leases	762	2.4	619	1.9	**613**	**1.8**	(18.8)	**(1.0)**
Depreciation, amortisation, impairments and write-offs	3,582	11.1	3,732	11.5	**4,358**	**13.0**	4.2	**16.8**
Fixed-line operating expenses	24,083	74.5	24,962	76.6	**29,849**	**88.7**	3.6	**19.6**

Notes:

(1) *Employee expenses include workforce reduction expenses of R8 million, R3 million and R24 million in the years ended March 31, 2009, 2008 and 2007, respectively.*

(2) *In the year ended March 31, 2007 we recorded a provision of R527 million for probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges. In the year ended March 31, 2008 we recorded a provision of R569 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R53 million and foreign exchange rate effect of R52 million, which are included in finance charges, partially offset by a provisional payment made in respect of specific sub-claims within the Telcordia claim. In the year ended March 31, 2009 we recorded a provision of R664 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R11 million and foreign exchange rate effect of R94 million, which are included in finance charges, partially offset by a R10 million reversal of the provision which is included in selling, general and administrative expenses.*

(3) *Includes a R254 million and R217 million impairment relating to Telkom Media in the 2009 and 2008 financial years, respectively and R1,843 million relating to the impairment of Multi-Links, R85 million impairment relating to Africa Online in the 2009 financial year.*

Fixed-line operating expenses increased in the 2009 financial year primarily due to increased selling, general and administrative expenses, payments to other network operators, depreciation, amortisation, impairment and write-offs, employee expenses and service fees. Fixed-line operating expenses increased in the 2008 financial year primarily due to increased payments to other network operators, employee expenses, service fees and depreciation, amortisation, impairment and write-offs, partially offset by lower leases and selling, general and administrative expenses.

Employee expenses. Employee expenses consist mainly of salaries and wages for employees, including bonuses and other incentives, benefits and workforce reduction expenses.

The following table sets forth information related to our employee expenses for the years indicated.

Financial review *(continued)*

	Fixed-line employee expenses Year ended March 31,				
(in millions, except percentages and number of employees)	2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
Salaries and wages	5,095	5,509	**5,746**	8.1	**4.3**
Benefits	2,673	2,671	**2,981**	(0.1)	**11.6**
Workforce reduction expenses	24	3	**8**	(87.5)	**166.7**
Employee related expenses capitalised	(696)	(786)	**(736)**	12.9	**(6.4)**
Employee expenses	7,096	7,397	**7,999**	4.2	**8.1**
Number of full-time, fixed-line employees (at period end)	25,864	24,879	**23,520**	(3.8)	**(5.5)**

Employee expenses increased in the year ended March 31, 2009 primarily due to a higher provision for medical aid for pensioners as a result of increased interest costs, higher salaries and wages as a result of average annual salary increases of 10.85% as well as a higher leave provision, partially offset by a lower number of employees. Employee expenses increased in the year ended March 31, 2008 primarily due to higher salaries and wages as a result of average annual salary increases of 7.0%, and increased share option grant expenses as a result of the higher number of shares granted in the year, partially offset by lower team awards.

Salaries and wages increased in the year ended March 31, 2009 primarily due to average annual salary increases of 10.85%, partially offset by lower headcount. Salaries and wages increased in the year ended March 31, 2008 primarily due to average annual salary increases of 7.0% and were further impacted by increased payments to contractors from original equipment manufacturers.

Benefits include allowances, such as bonuses, company contributions to medical aid, pension and retirement funds, leave provisions, workmen's compensation and levies payable for skills development. Benefits increased in the 2009 financial year primarily due to a higher provision for medical aid for pensioners as a result of increased interest costs and a higher provision for leave as a result of annual salary increases and a decrease in leave days taken. Benefits decreased in the 2008 financial year primarily due to lower team awards, a lower provision for medical aid for pensioners as a result of the annuity policy qualifying as a plan asset in June 2006, a lower provision for leave as a result of the decrease in the number of employees and lower training expenses, partially offset by increased share option grant expenses as a result of the higher number of shares allocated during the year.

Workforce reduction expenses include the cost of voluntary early retirement, termination severance packages offered to employees and the cost of social plan expense to prepare affected employees for new careers outside Telkom. Workforce reduction expenses decreased substantially in the years ended March 31, 2009 and 2008 due to the moratorium on voluntary severance packages taken in the 2007 financial year. An additional seven employees in the 2009 financial year, four employees in the 2008 financial year and 13 employees in the 2007 financial year left Telkom as part of the conclusion of Telkom's workforce reduction initiatives for the 2005 financial year.

Employee related expenses capitalised include employee related expenses associated with construction and infrastructure development projects. Employee related expenses capitalised decreased in the year ended March 31, 2009 primarily due to an increase in the use of subcontractors. Employee related expenses capitalised increased in the year ended March 31, 2008 primarily due to annual salary increases and increased capital expenditures on projects during the year.

Payments to other network operators. Payments to other network operators include settlement payments paid to the three South African mobile communications network operators and commencing in the 2008 financial year, Neotel, for terminating calls on their networks and to international network operators for terminating outgoing international calls and traffic transiting through their networks.

The following table sets forth information related to our payments to other network operators for the periods indicated.

Fixed-line payments to other network operators Year ended March 31, (in millions, except percentages)	2007 ZAR	2008 ZAR	2009 ZAR	2008/2007 % change	2009/2008 % change
Payments to mobile communications network operators	5,425	5,460	**5,432**	0.6	**(0.5)**
Payments to international and other network operators	1,036	1,208	**1,853**	16.6	**53.4**
Payments to fixed-line operators	–	234	**251**	n/a	**7.3**
Payments to other network operators	6,461	6,902	**7,536**	6.8	**9.2**

Payments to fixed-line operators increased in the 2009 financial year due to higher call volumes from interconnection with Neotel and VANS. Payments to fixed-line operators in the 2008 financial year were derived from interconnection commencing with Neotel, USALS and VANS during the 2008 financial year. Payments to mobile network operators decreased in the 2009 financial year primarily due to lower call volumes from our fixed-line network to the mobile networks due to an increase in mobile-to-mobile calls. Payments to international operators increased during the 2009 financial year due to increased switch hubbing volumes and higher exchange rates. Payments to mobile and international network operators increased in the 2008 financial year primarily due to higher call volumes from our fixed-line network to the mobile networks, resulting from discounts offered on our CellSaver and Telkom Closer products, increased fixed-to-mobile calls by business customers due to growth in the mobile market, increased international outgoing traffic arising from our reduced average international tariffs, a weaker exchange rate in the 2008 financial year and payments to fixed-line operators commencing in the 2008 financial year. Payments to other network operators include payments made by our fixed-line business to Vodacom, which were R3,020 million, R3,017 million and R2,954 million in the years ended March 31, 2009, 2008 and 2007, respectively. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's expenses on consolidation.

Selling, general and administrative expenses. Selling, general and administrative expenses include materials and maintenance costs, marketing expenditures, bad debts, theft, losses and other expenses, including obsolete stock and cost of sales.

The following table sets forth information related to our fixed-line selling, general and administrative expenses for the periods indicated.

Fixed-line selling, general and administrative expenses Year ended March 31, (in millions, except percentages)	2007 ZAR	2008 ZAR	2009 ZAR	2008/2007 % change	2009/2008 % change
Materials and maintenance	1,900	1,996	**2,295**	5.1	**15.0**
Marketing	604	583	**574**	(3.5)	**(1.5)**
Bad debts	137	217	**285**	58.4	**31.3**
Other[1][2]	1,335	1,103	**3,428**	(17.4)	**210.8**
Selling, general and administrative expenses[1][2]	3,976	3,899	**6,582**	(1.9)	**68.8**

Notes:

(1) *In the year ended March 31, 2007 we recorded a provision of R527 million for probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges. In the year ended March 31, 2008 we increased the provision to R569 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R53 million and foreign exchange rate effect of R52 million, which are included in finance charges, partially offset by a provisional payment made in respect of specific sub-claims within the Telcordia claim. In the year ended March 31, 2009 we increased the provision to R664 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R11 million and foreign exchange rate effect of R94 million, which are included in finance charges, partially offset by a R10 million reversal of the provision which is included in selling, general and administrative expenses.*

(2) *Includes a R254 million and R217 million impairment relating to Telkom Media in the 2009 and 2008 financial years, respectively and a R1,843 million impairment of the Multi-Links investment and an R85 million impairment of the Africa Online investment in the 2009 financial year.*

Financial review *(continued)*

Selling, general and administrative expenses increased primarily due to the impairment of the Multi-Links investment in the 2009 financial year, increased materials and maintenance expenses and higher bad debts. Selling, general and administrative expenses decreased primarily due to the provision for probable liabilities in the Telcordia dispute in the 2007 financial year, which were not increased significantly in the 2008 financial year, and lower marketing expense, partially offset by the R217 million impairment of the Telkom Media loan in the 2008 financial year – increased materials and maintenance expenses and higher bad debts.

Materials and maintenance expenses include stock write-offs, subcontractor payments and consumables required to maintain our network. Materials and maintenance expenses increased in the years ended March 31, 2009 and 2008 primarily due to increased operating maintenance projects as result of an increase in the number of technologies employed in the network and higher fuel costs as a result of the increased price of fuel. In the 2009 financial year increased maintenance on the submarine cables as a result of higher exchange rates also contributed.

Marketing expenses were relatively flat in the 2009 financial year. Marketing expenses decreased in the year ended March 31, 2008 primarily due to lower sponsorships and decreased calling plan advertising during the year.

Bad debt increased in the year ended March 31, 2009 as more debtors defaulted on payments as a result of poor economic conditions in South Africa driven by higher inflation. Bad debt increased in the year ended March 31, 2008 due to provisions for higher international bad debts in certain countries, including Nigeria, Gabon and the United Kingdom. Bad debt as a percentage of revenue was 1.0%, 0.7% and 0.4% in the 2009, 2008 and 2007 financial years, respectively.

Other expenses include obsolete stock, cost of sales, subsistence and travel and an offset for bad debts recovered. Other expenses increased in the year ended March 31, 2009 primarily due to the R1,843 million impairment of the Multi-Links investment, R254 million impairment of the Telkom Media loan and R85 million impairment of the Africa Online investment in the 2009 financial year. Other expenses decreased in the year ended March 31, 2008 primarily due to the provision for probable liabilities in the Telcordia dispute in the 2007 financial year, which were not increased significantly in the 2008 financial year, partially offset by the R217 million impairment of the Telkom Media loan in the 2008 financial year.

Service fees. Service fees include payments in respect of the management of our properties, to TFMC, a facilities and property management company, consultants and security. Consultants comprise fees paid to collection agents and to providers of other professional services and external auditors. Security refers to services to safeguard the network and contracts to ensure a safe work environment, such as guard services.

The following table sets forth information relating to service fee expenses for the periods indicated.

	Fixed-line service fees Year ended March 31,				
(in millions, except percentages)	2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
Property management	1,141	1,222	**1,262**	7.1	**3.2**
Consultants, security and other	1,065	1,191	**1,499**	11.8	**25.9**
Service fees	2,206	2,413	**2,761**	9.4	**14.4**

The following table sets forth information relating to depreciation, amortisation, impairments and write-offs for the periods indicate.

Fixed-line depreciation, amortisation, impairments and write-offs					
	Year ended March 31,				
	2007	2008	**2009**	2008/2007	**2009/2008**
(in millions, except percentages)	ZAR	ZAR	**ZAR**	% change	**% change**
Depreciation of property, plant and equipment	2,993	3,061	**3,399**	2.3	**11.0**
Amortisation of intangibles	305	409	**638**	34.1	**56.0**
Write-offs of property, plant and equipment and intangible assets	284	262	**321**	(7.7)	**22.5**
Depreciation, amortisation, impairments and write-offs	3,582	3,732	**4,358**	4.2	**16.8**

Service fees increased in the year ended March 31, 2009 primarily due to consultancy fees relating to the Vodacom sale and unbundling transaction and higher security costs to secure the copper network. Service fees increased in the year ended March 31, 2008 primarily as a result of increased property payment costs, mainly related to increased electricity usage, electricity rates and taxes, payments to consultants to explore local and international investment opportunities, higher security costs due to increases in contract prices and maintenance and monitoring of the cable alarm system and legal fees related to Telcordia.

Operating leases. Operating leases include payments in respect of equipment, buildings and vehicles. Operating leases decreased by 1.0% primarily due to a 6.0% reduction in the vehicle fleet from 8,792 vehicles at March 31, 2008 to 8,266 vehicles at March 31, 2009. Operating leases decreased in the year ended March 31, 2008 primarily due to a discount received on the extension of our vehicle lease and a reduction in the number of vehicles from 9,694 at March 31, 2007 to 8,792 at March 31, 2008.

Depreciation, amortisation, impairments and write-offs. Depreciation, amortisation, impairments and write-offs increased in the year ended March 31, 2009 primarily as a result of higher amortisation of intangible assets and increased depreciation due to the ongoing investment in telecommunications network equipment and data processing equipment. Depreciation, amortisation, impairments and write-offs increased in the year ended March 31, 2008 primarily as a result of higher amortisation of intangible assets and increased depreciation due to the ongoing investment in telecommunications network equipment and data processing equipment, partially offset by lower asset write-offs.

Mobile segment

Mobile encompasses all the operating activities of our 50% joint venture investment in Vodacom, the largest mobile operator in South Africa with an approximate 53% market share as of March 31, 2009 based on total estimated customers in South Africa. In addition to its South African operations, Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. On December 30, 2008 Vodacom acquired 100% shareholding in Gateway Telecommunications Plc, Gateway Communications (Proprietary) Limited, Gateway Communications Mozambique LDA, Gateway Communications (Tanzania) Limited, GS Telecom (Proprietary) Limited and their respective subsidiaries, or Gateway which has customers in 40 countries in Africa.

The following table shows information related to our 50% share of Vodacom's operating revenue and operating profit broken down by Vodacom's South African operations and operations in other African countries and Gateway for the periods indicated. All amounts in this table and the discussion of our mobile segment that follows represent 50% of Vodacom's results of operations unless otherwise stated and are before the elimination of intercompany transactions with us.

Financial review *(continued)*

Mobile operating revenue and profits
Year ended March 31,

(in millions, except percentages)	2007 ZAR	2007 %	2008 ZAR	2008 %	**2009 ZAR**	**2009 %**	2008/2007 % change	**2009/2008 % change**
Operating revenue	20,573	100.0	24,089	100.0	**27,594**	**100.0**	17.1	**14.6**
South Africa	18,504	89.9	21,392	88.8	**23,688**	**85.8**	15.6	**10.7**
Other African countries	2,069	10.1	2,697	11.2	**3,502**	**12.7**	30.4	**29.8**
Gateway	–	–	–	–	**404**	**1.5**	–	**n/a**
Operating profit[1]	5,430	100.0	6,247	100.0	**6,009**	**100.0**	15.0	**(3.8)**
South Africa	5,170	95.2	5,852	93.7	**5,690**	**94.7**	13.2	**(2.8)**
Other African countries	260	4.8	395	6.3	**303**	**5.0**	51.9	**(23.3)**
Gateway	–	–	–	–	**16**	**0.3**		**n/a**
EBITDA[1][2]	7,123	100.0	8,217	100.0	**8,407**	**100.0**	15.4	**2.3**

Notes:

(1) *Mobile operating profit and mobile EBITDA include our 50% share of an impairment loss of R23 million, R30 million and R112 million, in the 2007, 2008 and 2009 financial years, respectively, in respect of the assets in Mozambique due to a decrease in the fair value of the assets. R5.8 million of the impairment loss related to available-for-sale investments.*

(2) *Mobile EBITDA comprises our 50% share of Vodacom's EBITDA, which represents mobile net profit, before taxation, finance charges, investment income and depreciation, amortisation and impairments, but includes the profit on sale of investments and broad-based black economic empowerment expenses. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant taxation regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. EBITDA is not an IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same.*

Mobile operating revenue

Vodacom derives revenue from mobile services as well as other related or value-added goods and services. Vodacom's revenue is mainly in the form of airtime charges, primarily airtime payments from customers registered on Vodacom's network; data products and services; interconnection revenue from other operators for the termination of calls on Vodacom's network and national roaming revenue, revenue from equipment sales, including sales of handsets and accessories; and revenue from international services, including airtime charges for the use of Vodacom's network through roaming of customers from other international networks and Vodacom customers who roam abroad.

The following table shows our 50% share of Vodacom's revenue broken down by major revenue type and as a percentage of total operating revenue for our mobile segment and the percentage change by revenue type for the periods indicated.

Mobile operating revenue
Year ended March 31,

(in millions, except percentages)	2007 ZAR	2007 %	2008 ZAR	2008 %	**2009 ZAR**	**2009 %**	2008/2007 % change	**2009/2008 % change**
Airtime and access	11,854	57.6	13,548	56.3	**15,166**	**55.0**	14.3	**11.9**
Data	1,671	8.1	2,501	10.4	**3,221**	**11.7**	49.7	**28.8**
Interconnection	3,918	19.0	4,443	18.4	**4,899**	**17.7**	13.4	**10.3**
Equipment sales	2,350	11.4	2,526	10.5	**2,650**	**9.6**	7.5	**4.9**
International airtime	653	3.2	918	3.8	**1,043**	**3.8**	40.6	**13.6**
Other sales and services	127	0.7	153	0.6	**615**	**2.2**	20.5	**302.0**
Mobile operating revenue	20,573	100.0	24,089	100.0	**27,594**	**100.0**	17.1	**14.6**

Vodacom's operating revenue from South African operations increased in the 2009 financial year mainly due to an increase in customers driven by retention campaigns and loyalty programmes, the introduction of more affordable products and lower denomination vouchers. Revenue growth in the other African operations was mainly due to strong customer growth driven by the launch of new products and services, aggressive sales and marketing campaigns as well as enhanced network coverage. Vodacom's operating revenue increased in the 2008 financial year primarily due to increased airtime, data, interconnection and equipment sales revenue as a result of continued customer growth. Vodacom's equipment sales further increased in the 2008 financial year due to the added functionality of new phones based on new technologies.

Our 50% share of Vodacom's revenue from operations outside of South Africa increased to R3,502 million for the year ended March 31, 2009 from R2,697 million for the year ended March 31, 2008 and R2,069 million in the year ended March 31, 2007. The increase in Vodacom's operating revenue from other African countries in the 2009 and 2008 financial years was primarily due to substantial increases in the number of customers in Vodacom's operations, particularly in Tanzania, the Democratic Republic of the Congo and Mozambique, and the weakening of the rand in the 2009 and 2008 financial years, which resulted in higher rand converted revenue, partially offset by lower ARPU resulting from the higher volume of lower spending prepaid customers. Revenue from Vodacom's other African countries as a percentage of Vodacom's total mobile operating revenue increased to 12.7% in the year ended March 31, 2009 from 11.2% in the year ended March 31, 2008 and 10.1% in the year ended March 31, 2007.

South African contract ARPU decreased to R474 per month in the 2009 financial year from R486 per month in the 2008 financial year and R517 per month in the 2007 financial year. South African prepaid ARPU increased to R68 per month in the 2009 financial year from R62 per month in the 2008 financial year, a decrease from R63 per month in the 2007 financial year. In the 2008 and 2007 financial years, contract and prepaid customer ARPU were also negatively impacted by the high growth in Vodacom's hybrid contract product, Family Top Up, which contributed to the migration of higher spending prepaid customers, who tend to spend less than existing contract customers, to contracts. In the 2007 financial year, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity for a six-month period, resulting in the deletion of approximately three million customers. Prepaid ARPU was positively impacted by this temporary rule change in the 2007 financial year. Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Such SIM cards were disconnected from the network after being inactive for a 215 consecutive day period. Since implementing this change, prepaid SIM cards remaining in an active state on the network, with only call forwarding to voicemail and no other revenue generating activities, increased significantly. Vodacom therefore implemented a supplementary disconnection rule in September 2007 to disconnect inactive prepaid SIM cards after 13 months of being kept in an active state, by call forwarding to voicemail only, and not having had any other revenue generating activity on Vodacom's network. The implementation of the supplementary disconnection rule led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007, which resulted in higher prepaid ARPU than would have otherwise occurred. Approximately 85.3% of Vodacom's South African mobile customers were prepaid customers at March 31, 2009 and approximately 94.4% of all gross connections were prepaid customers in the 2009 financial year. Vodacom expects the number of prepaid mobile users to continue to grow to a greater extent than contract mobile users. The increasing number of prepaid users, who tend to have lower average usage, and the lower overall usage as the lower end of the market is penetrated have historically resulted in decreasing overall average revenue per customer. Total South African ARPU increased to R133 per month in the 2009 financial year and remained stable at R128 per month in the 2008 and 2007 financial years. Total South African ARPU remained stable in the 2008 financial year, despite declining South African contract and prepaid ARPU, due to a shift in the customer mix to higher spending contract customers, which represented 14.3% of total South African customers as of March 31, 2009 and 2008, respectively.

Service providers in South Africa generally subsidise handsets when a contract customer enters into a new contract or renews an existing contract depending on the airtime and tariff plan and type of handset purchased. Subsidised handset sales give customers an incentive to switch operators to obtain new handsets and have contributed to churn. Handsets for prepaid customers are not subsidised by Vodacom as these users have the freedom of switching operators and contribute to churn. Vodacom is more vulnerable to churn than other mobile communications providers in South Africa since it has the largest number of customers in South Africa. To date, mobile number portability has had no significant impact on churn.

The cost to acquire contract customers in a highly developed market is high. Vodacom has therefore implemented upgrade and retention policies over the last few years and has striven to maintain a high level of incentives to service providers in order to reduce churn. Vodacom's churn rate for contract customers in South Africa increased to 9.9% in the 2009 financial

Financial review *(continued)*

year from 8.3% in the 2008 financial year mainly due to an increase in involuntary churn driven by the economic conditions. Vodacom's churn rate for contract customers decreased in the 2008 financial year to 8.3% from 9.7% in the 2007 financial year mainly due to an improvement in service and products to customers and the continued high level of handset support to retain customers. Prepaid churn is adversely impeded by an increasingly competitive market, lower barriers to entry for prepaid customers in South Africa and the volatile nature of the prepaid customer base. Vodacom's churn rate for prepaid customers in South Africa decreased to 45.4% in the 2009 financial year from 47.9% in the 2008 financial year mainly due to focused campaigns to offer greater value to customers to reduce churn coupled with the marketing of SIM swaps and various loyalty programmes. Vodacom's churn rate for prepaid customers in South Africa increased to 47.9% in the 2008 financial year from 37.5% in the 2007 financial year. The increase in prepaid churn in the 2008 financial year was mainly due to the supplementary disconnection rule implemented, which led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007.

Airtime. Vodacom derives airtime revenue from connection and monthly rental fees and airtime usage fees paid by Vodacom's contract customers for use of its mobile networks. Airtime revenue also includes fees paid by Vodacom's prepaid phone customers for prepaid starter phone packages and airtime recharge vouchers utilised, which entitle customers to receive unlimited incoming calls up to 365 days. Airtime revenue depends on the total number of customers, traffic volume, mix of prepaid and contract customers and tariffs.

Vodacom's airtime revenue increased in the years ended March 31, 2009 and March 31, 2008 primarily due to continued customer growth and an increase in outgoing voice traffic minutes. As Vodacom's primary market in South Africa continues to mature and Vodacom continues to connect more marginal customers in its South African operations, Vodacom expects that growth in airtime in South Africa will continue to slow. Total customers increased 16.5% and 12.7% in the years ended March 31, 2009 and 2008, respectively, primarily due to strong prepaid customer growth in South Africa and significant customer growth in Vodacom's operations outside of South Africa, particularly in Tanzania, the Democratic Republic of Congo and Mozambique in the 2009 and 2008 financial years.

Data revenue. Vodacom derives data revenue from mobile data, including short messaging services, or SMSs, and multimedia messaging services, or MMSs, general packet radio services, or GPRS, and third generation services, or 3G. Data revenue contributed 11.7% of Vodacom's total revenue in the year ended March 31, 2009, up from 10.4% in the year ended March 31, 2008 and 8.1% in the year ended March 31, 2007. Vodacom's mobile data revenue increased in the year ended March 31, 2009 primarily due to growth in the number of messages sent as well as an increase in the number of broadband customers. Vodacom's mobile data revenue increased in the year ended March 31, 2008 primarily due to higher penetration levels influenced by more affordable product offerings.

In South Africa, Vodacom transmitted 5.4 billion SMSs and MMSs over its network in the 2009 financial year, compared to 5.0 billion in the 2008 financial year. The number of broadband connectivity customers increased by 79.8% to approximately 720,000 customers from approximately 400,000 customers as of March 31, 2008. The number of 3G/HSDPA handsets on the network as of March 31, 2009 was 2.8 million, as compared to 1.3 million as of March 31, 2008. During the 2009 financial year there was an increase in the usage of GPRS, 3G and HSDPA, the volume of data transferred increased to 3,175 Terabytes, a 97.8% increase from the 2008 financial year.

Interconnection. Vodacom generates interconnection revenue when a call originating from our fixed-line network and more recently, Neotel, or one of the other mobile operators' networks terminates on Vodacom's network. Interconnection revenue also includes revenue from Cell C for national roaming services. Vodacom does not have a roaming agreement with MTN. Vodacom generates national roaming revenue when its mobile network carries a call made from a Cell C customer. Interconnection revenue depends on the volume of traffic terminating on Vodacom's network, the interconnection termination rates payable by ourselves and the other mobile operators to Vodacom and national roaming rates.

Vodacom's interconnection revenue increased in the years ended March 31, 2009 and March 31, 2008 primarily due to an increase in the number of calls terminating on Vodacom's network as a result of the increased number of Vodacom's customers and South African mobile users generally. The increase in the 2009 financial year was mainly driven by an increase in incoming traffic as well as an increase in national roaming revenue from Cell C as a result of their increased market share and increased calls terminating on Vodacom's network. The growth in the 2008 financial year was also attributable to the growth in the substitution of fixed-line calls by mobile calls and incoming traffic resulting from an overall increase in the customer base of other mobile operators. The increases were partially offset by a reduced number of fixed-line calls from Telkom's network terminating on Vodacom's network. Interconnection revenue in our mobile segment included R1,483 million, R1,482 million and R1,454 million in the years ended March 31, 2009, 2008 and 2007, respectively, for calls received from our fixed-line business, which were eliminated from the Telkom Group's revenue on consolidation.

Equipment sales. Vodacom generates revenue from equipment sales primarily from the sale of mobile phones and accessories. Vodacom purchases handsets for itself and for external service providers in bulk at purchase discounts in order to lower the cost of handset subsidisation for contract customers. Equipment sales revenue fluctuates based on whether external providers and Vodacom's other African operators source equipment from Vodacom in South Africa or purchase equipment from third party suppliers.

Vodacom's equipment sales increased in the 2009 and 2008 financial years primarily due to the growth of Vodacom's customer base and the continued uptake of new handsets in South Africa as a result of cheaper rand prices of new handsets and the added functionality of new phones based on new technologies such as 3G enabled phones, camera phones and colour screens.

International airtime. International airtime revenues are predominantly from international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international customers roaming on Vodacom's networks. International airtime increased 13.6% to R1,043 million in the year ended March 31, 2009 and 40.6% to R918 million in the year ended March 31, 2008 primarily as a result of growth in the customer base.

Other. Revenue from other sales and services includes revenue from Vodacom's cell captive insurance vehicle, wireless application services provider, or WASP, revenue, site sharing rental income as well as other revenue from non-core operations. Vodacom's other sales and services revenue increased 302.0% to R615 million in the 2009 financial year primarily due to the acquisition of Gateway. Vodacom's other sales and services revenue increased 20.5% to R153 million in the 2008 financial year primarily due to an increase in inactivated starter packs which do not contain an expiration date, but which are recognised as income after a period of 36 months.

Mobile operating expenses

The following is a discussion of our mobile segment's operating expenses which comprise our 50% share in Vodacom's operating expenses. Vodacom's operating expense line items are presented in accordance with the line items reflected in the Telkom Group's consolidated operating expenses which are different from the operating expense line items contained in Vodacom's consolidated financial statements.

The following table shows our 50% share of Vodacom's operating expenses and the percentage change for the periods indicated.

Mobile operating expenses Year ended March 31, (in millions, except percentages)	2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
Employee expenses	1,186	1,488	**1,804**	25.5	**21.2**
Payments to other network operators	2,818	3,279	**3,822**	16.4	**16.6**
Selling, general and administrative expenses	8,777	10,271	**12,553**	17.0	**22.2**
Service fees	82	115	**169**	40.2	**47.0**
Operating leases	629	775	**958**	23.2	**23.6**
Depreciation, amortisation and impairments	1,693	1,970	**2,398**	16.4	**21.7**
Mobile operating expenses	15,185	17,898	**21,704**	17.9	**21.3**

Financial review *(continued)*

The increase in mobile operating expenses in the 2009 financial year was mainly due to the increased cost of connecting prepaid customers and retaining contract customers, as well as increased network operational expenditure due to the roll-out of additional sites, coupled with increased interconnection rates in the DRC. The increase in mobile operating expenses in the 2008 financial year was primarily due to inflationary factors and growth in the business, which led to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, higher employee costs as a result of increased headcount as well as increased depreciation, amortisation and impairment.

Employee expenses. Employee expenses consist mainly of salaries and wages of employees as well as contributions to employee pension, medical aid funds and benefits and the deferred bonus incentive scheme.

Vodacom's employee expenses increased in the year ended March 31, 2009 primarily as a result of the increase in the average number of employees and annual salary increases, partially offset by lower performance based remuneration. Vodacom's employee expenses increased in the year ended March 31, 2008 primarily as a result of a 9.5% increase in headcount to support the expansion of customer care operations, the strengthening of senior management structures to support the growth in ongoing operations and the launch of Vodacom Business. Annual salary increases and increased provisions for other employee incentive schemes also contributed to the increase in staff expenses.

Total headcount in Vodacom's South African operations increased 12.4% to 5,451 employees as of March 31, 2009 and 2.6% to 4,849 employees as of March 31, 2008 from 4,727 employees as of March 31, 2007. Total headcount in Vodacom's other African countries increased 17.3% to 2,336 employees as of March 31, 2009 and 30.9% to 1,992 employees as of March 31, 2008 from 1,522 employees as of March 31, 2007. Total headcount includes temporary agency employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees.

Payments to other network operators. Payments to other network operators consist mainly of interconnection payments made by Vodacom's South African and other African operations for terminating calls on other operators' networks. Vodacom's payments to other network operators increased significantly in the years ended March 31, 2009 and 2008 as a result of increased outgoing traffic in line with increased customer growth and the increasing percentage of outgoing traffic terminating on the other mobile networks rather than Telkom's fixed-line network as the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network. As the mobile communications market continues to grow in South Africa, Vodacom expects that interconnection charges will continue to increase and adversely impact Vodacom's profit margins.

Payments to other network operators in our mobile segment included R231 million, R234 million and R234 million in the years ended March 31, 2009, 2008 and 2007, respectively, for interconnection fees paid to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Selling, general and administrative expenses. Selling, general and administrative expenses include customer acquisition and retention costs, packaging, distribution, marketing, regulatory licence fees, bad debts and various other general administrative expenses, including accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

The following table sets forth information related to our 50% share of Vodacom's selling, general and administrative expenses for the periods indicated.

Mobile selling, general and administrative expenses Year ended March 31, (in millions, except percentages)	2007 ZAR	2008 ZAR	**2009** **ZAR**	2008/2007 % change	**2009/2008** **% change**
Selling, distribution and other	7,703	9,063	**11,105**	17.7	**22.5**
Marketing	573	632	**762**	10.3	**20.6**
Regulatory and licence fees	490	527	**607**	7.6	**15.2**
Bad debts	11	49	**79**	345.5	**61.2**
Selling, general and administrative expenses	8,777	10,271	**12,553**	17.0	**22.2**

Vodacom's selling, general and administrative expenses increased in the year ended March 31, 2009 primarily due to an increase in selling, distribution and other expenses and marketing expenses to support the launch and expansion of 3G, growth in Vodacom's South African and African operations and competition. Vodacom's selling, general and administrative expenses increased in the year ended March 31, 2008 primarily due to an increase in selling, distribution and other expenses, incentive costs, regulatory and licence fees and marketing expenses to support the launch and expansion of 3G, growth in Vodacom's South African and African operations and increased competition.

Selling, distribution and other expenses include cost of goods sold, commissions, customer acquisition and retention expenses, distribution expenses and insurance. The increase in selling, distribution and other expenses in the 2009 financial year was primarily due to increased fuel and electricity costs, competition and network operational expenditure as a result of the roll-out of additional sites. The increase in selling, distribution and other expenses in the 2008 financial year was primarily due to increased customer connections, competition, revenue, cost of equipment as a result of increased handset sales and maintenance of the GSM infrastructure and billing systems as well as due to the Vodafone global alliance fee.

The increase in marketing expenses in the 2009 financial year was mainly as a result of promotion campaigns to counter competition. The increase in marketing expenses in the 2008 financial year was mainly due to promoting new technologies, including 3G and Vodafone live! and further promoting the Vodacom brand in all operations. The increases in regulatory and licence fees during the reporting periods were directly related to the increase in operating revenues and corresponding payments under Vodacom's existing licences. The increase in bad debts in the 2008 financial year resulted from a clean-up of Smartphone debtors following the increase in shareholding to 100%.

Service fees. Service fees include consultancy services for technical, administrative and managerial services, audit fees, legal fees and communication and information technology costs.

Operating leases. Operating leases include payments in respect of rentals of GSM transmission lines as well as office accommodation, office equipment and motor vehicles. Operating leases in our mobile segment included R529 million, R514 million and R453 million in the years ended March 31, 2009, 2008 and 2007, respectively, for operating lease payments to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Depreciation, amortisation and impairments. Depreciation, amortisation and impairments increased in the years ended March 31, 2009 and 2008 primarily due to higher capital expenditure as a result of the implementation and expansion of 3G/HSDPA networks, the weakening of the rand against the other functional currencies of Vodacom and the impairment of assets in Vodacom Mozambique.

Multi-Links segment

Multi-Links operating revenue

Multi-Links operating revenue is derived principally from fixed, mobile, data, long distance and international communications services throughout Nigeria, through our wholly owned subsidiary, Multi-Links.

The following table shows the operating revenue for our Multi-Links segment for the periods indicated.

	Multi-Links operating revenue				
	Year ended March 31,				
	2007	2008	**2009**	2008/2007	**2009/2008**
(in millions, except percentages)	ZAR	ZAR	**ZAR**	% change	**% change**
Multi-Links operating revenue	–	845	**1,900**	–	**124.9**

The increase in Multi-Links revenue is mainly as a result of subscriber growth and an increase in domestic traffic volumes as well as increased data revenue. Multi-Links, which was acquired with effect from May 1, 2007, contributed R845 million in the 2008 financial year from its customers in the Nigerian market since its acquisition.

Multi-Links operating expenses

The following table shows operating expenses for our Multi-Links segment broken down by major expense categories and the percentage change for the periods indicated.

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Financial review *(continued)*

(in millions, except percentages)	2007 ZAR	2008 ZAR	2009 ZAR	2008/2007 % change	2009/2008 % change
Multi-Links operating expenses Year ended March 31,					
Employee expenses	–	39	**126**	–	**223.1**
Payments to other operators	–	624	**652**	–	**4.5**
Selling, general and administrative expenses	–	142	**1,117**	–	**686.6**
Service fees	–	14	**38**	–	**171.4**
Operating leases	–	37	**193**	–	**421.6**
Depreciation, amortisation and impairments	–	86	**296**	–	**244.2**
Other operating expenses	–	942	**2,422**	–	**157.1**

Employee expenses increased by 223.1% in the 2009 financial year primarily due to an increase in the number of employees as well as salary increases and bonus payments.

The 686.6% increase in selling, general and administrative expenditure in the 2009 financial year primarily related to increased cost of sales and associated handset subsidies of R281 million as a result of increased sales volumes, increased advertising and promotional expenditure and an increase in expatriates fees as a result of an increase in staff seconded from Telkom during the year.

The increases in service fees were mainly as a result of increased security cost and payments to consultants as a result of an increase in operations during the year.

Operating leases increased 421.6% as a result of an increase in the number of leased base stations, warehouses and office buildings as a result of the expanding operations.

Depreciation, amortisation and impairments increased 244.2% as a result of higher capital expenditure incurred during the year.

Other segment

Other operating revenue

Our other operating revenue is derived principally from directory services, through our Trudon Group, internet services outside South Africa, through our Africa Online subsidiary.

The following table shows the operating revenue for our other segment broken down by major revenue streams and the percentage change by major revenue stream for the periods indicated.

(in millions, except percentages)	2007 ZAR	2008 ZAR	2009 ZAR	2008/2007 % change	2009/2008 % change
Other operating revenue Year ended March 31,					
Trudon	865	930	**1,020**	7.5	**9.7**
Africa Online	8	110	**194**	n/a	**76.4**
Other operating revenue	873	1,040	**1,214**	19.1	**16.7**

The increase in other operating revenue was mainly attributable to UUNET, Africa Online's 40% joint venture. Our other operating revenue increased in the 2008 financial year primarily due the inclusion in the current year of revenue generated by our newly acquired subsidiary, Africa Online. Africa Online, which was acquired with effect from February 23, 2007, increased the revenue contribution to the group from R8 million during the 2007 financial year to R110 million during the 2008 financial year.

These additional revenue streams were further supported by the continued growth in advertising revenue from our subsidiary, Trudon. Revenue from directory services increased in the years ended March 31, 2009 and 2008 primarily due to annual tariff increases and increased marketing and online efforts, resulting in increased spending on advertising by existing customers and additional advertising revenue from new customers.

Other operating expenses

The following table shows operating expenses for our other segment broken down by major expense categories and the percentage change for the periods indicated.

(in millions, except percentages)	Other operating expenses Year ended March 31, 2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
Employee expense	158	193	**220**	22.2	**14.0**
Payments to other operators	–	53	**89**	–	**67.9**
Selling, general and administrative expenses	310	335	**404**	8.1	**20.6**
Service fees	5	12	**12**	140.0	**–**
Operating leases	20	23	**26**	15.0	**13.0**
Depreciation, amortisation and impairments	19	32	**50**	68.4	**56.3**
Other operating expenses	512	648	**801**	26.6	**23.6**

Increases in other operating expenses in the 2009 financial year were primarily driven by increases in selling, general and administrative expenses, payments to other operators, employee expenses and depreciation, amortisation and impairments. Increases in other operating expenses in the 2008 financial year were primarily driven by increases in payments to other operators, employee expenses, depreciation, amortisation and impairments, operating leases and service fees. The increase in these operating expenses in the 2008 financial year was primarily due to the inclusion of operating expenses relating to our newly acquired subsidiary, Africa Online, which impacted all expense categories.

The following table shows the contributions to other operating expenses by each of the two subsidiaries contained in our other segment and the percentage change for the periods indicated.

(in millions, except percentages)	Other operating expenses Year ended March 31, 2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
Trudon	504	530	**593**	5.2	**11.9**
Africa Online	8	118	**208**	1,375.0	**76.3**
Other operating expenses	512	648	**801**	210.7	**23.6**

Financial review *(continued)*

Liquidity and capital resources

Group liquidity and capital resources

Cash flows

The following table shows information regarding our consolidated cash flows for the periods indicated.

(in millions, except percentages)	2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
	Year ended March 31,				
Cash flows from operating activities	9,356	10,603	**11,432**	13.3	**7.8**
Cash flows from investing activities	(10,412)	(14,106)	**(17,005)**	35.5	**20.6**
Cash flows from financing activities	(2,920)	2,943	**7,093**	200.8	**141.0**
Net (decrease)/increase in cash and cash equivalents	(3,976)	(560)	**1,520**	85.9	**371.4**
Effect of foreign exchange rate differences	29	44	**(30)**	51.7	**(168.2)**
Net cash and cash equivalents at the beginning of the year	4,255	308	**(208)**	(92.8)	**(167.5)**
Net cash and cash equivalents at the end of the year	308	(208)	**1,282**	(167.5)	**716.3**

Cash flows from operating activities

Our primary sources of liquidity are cash flows from operating activities and borrowings. We intend to fund our expenses, indebtedness and working capital requirements from cash generated from our operations and from capital raised in the markets. The increase in cash flows from operating activities in the 2009 financial year is mainly due to a lower dividend payment in respect of the 2008 financial year and lower taxation paid, partially offset by higher finance charges and a decrease in cash generated from operations. The increase in cash flows from operating activities in the 2008 financial year is mainly due to lower taxation payments as well as an increase in cash generated from operations, partially offset by higher dividends paid.

Cash flows from investing activities

Cash flows from investing activities relate primarily to investments in our fixed-line network, our other segment's networks and our 50% share of Vodacom's investments in its mobile networks in South Africa and other African countries. The increase in cash flows used in investing activities in the 2009 financial year was as a result of the increased capital expenditure of Multi-Links as well as the acquisition of Gateway by Vodacom and the acquisition of the remaining 25% share in Multi-Links. The increase in cash flows used in investing activities in the 2008 financial year was mainly the result of R1,985 million cash utilised for the purchase of Multi-Links and increased equity investments in Smartphone, increased capital expenditures in our fixed-line, mobile and other segments and lower proceeds on the disposal of investments, partially offset by higher proceeds on the disposal of property, plant and equipment and intangibles.

Cash flows from financing activities

Cash flows from financing activities are primarily a function of borrowing and share buy-back activities.

In the 2009 financial year, loans raised exceeded loans repaid and the increase in net financial assets. In the 2009 financial year, cash flows from financing activities were primarily due to the issuance of R11,025 million nominal value of commercial paper bills, the issue of the new local bonds, the TL12 and TL15 with a nominal value of R1,060 million and R1,160 million, respectively, as well as entering into a syndicated loan agreement with a nominal value of R4,100 million. This was partially offset by the repayment of a term loan of R1,000 million, a bank facility of R1,000 million, bridging finance of R1,600 million and maturing commercial paper bills of R9,849 million nominal value.

In the 2008 financial year, loans raised and the decrease in net financial assets exceeded loans repaid, shares bought back and cancelled and finance lease obligation repaid. In the 2008 financial year, cash flows from financing activities were primarily due to the issuance of R18,806 million nominal value of commercial paper bills, as well as entering into call and term loans of R5,600 million to fund the redemption of the TK01 bond and other cash flows from investing activities, including R1.6 billion of additional bank borrowings and interest bearing debt by Vodacom. This was partially offset by the maturing commercial paper debt of R15,773 million nominal value, the repayment of the TK01 bond with a nominal value of R4,680 million and R1,647 million paid for the repurchase of shares during the year.

In the 2007 financial year, loans and finance leases repaid and shares repurchased and cancelled exceeded loans raised and the decrease in net financial assets, by R2,920 million. In the 2007 financial year cash flows used in financing activities increased primarily due to the lower sale of repurchase agreements and derivative instruments that were sold in the 2006 financial year to fund dividends and tax payments. On October 31, 2006, we repaid the TL06 local bond having a nominal value of R2,100 million and during the 2007 financial year, we repaid R3,731 million in nominal value of commercial paper bill debt. Commercial paper bills having a nominal value of R4,651 million were issued in the 2007 financial year.

Working capital

We had negative consolidated working capital from continuing operations of approximately R6.2 billion as of March 31, 2009, we had negative consolidated working capital from total operations of approximately R9.3 billion as of March 31, 2008 and approximately R8.2 billion as of March 31, 2007. Negative working capital arises when current liabilities are greater than current assets. The increase in the Company's negative working capital in the 2009 financial year was mainly as a result of an increase in interest bearing debt payable, partially offset by higher financial assets in the form of repurchase agreements. The increase in negative working capital in the 2008 financial year was primarily due to an increase in the current portion of interest bearing debt due to the repayment of the TK01 local bond with short-term debt that was subsequently partially refinanced by the TL12 and TL15 bonds after the year end, a reduction in cash available due to acquisition activities, increased capital expenditure, increased dividends paid, shares repurchased and an increase in trade and other payables. Telkom is of the opinion that the Telkom Group's cash flows from operations, together with proceeds from the Vodacom transaction and the proceeds from liquidity available under credit facilities and in the capital markets, will be sufficient to meet the Telkom Group's present working capital requirements for the 12 months following the date of this annual report. We intend to fund current liabilities through a combination of operating cash flows and with new borrowings and borrowings available under existing credit facilities. We had R6.2 billion available under existing credit facilities as of March 31, 2009.

Capital expenditures and investments

The following table shows the Telkom Group's investments in property, plant and equipment including intangible assets, including our 50% share of Vodacom's investments, for the periods indicated.

	Year ended March 31,				
(in millions, except percentages)	2007 ZAR	2008 ZAR	**2009 ZAR**	2008/2007 % change	**2009/2008 % change**
Group capital expenditure					
Fixed-line	6,594	6,794	**6,690**	3.0	**(1.5)**
Baseline	3,409	4,039	**3,343**	18.5	**(17.2)**
Revenue generating	159	57	**30**	(64.2)	**(47.4)**
Network evolution	784	1,092	**1,373**	39.3	**25.7**
Sustainment	416	277	**115**	(33.4)	**(58.5)**
Effectiveness and efficiencies	1,141	841	**603**	(26.3)	**(28.3)**
Company support	497	451	**790**	(9.3)	**75.2**
Regulatory	188	37	**436**	(80.3)	**1,078.4**
Mobile	3,608	3,460	**3,569**	(4.1)	**3.2**
Multi-Links	–	1,312	**2,791**	–	**112.7**
Other	44	334	**184**	659.1	**(44.9)**
Total investment in property, plant and equipment and intangible assets	10,246	11,900	**13,234**	16.1	**11.2**

Financial review *(continued)*

Fixed-line capital expenditure, which includes spending on intangible assets, decreased by 1.5% to R6,690 million and represents 19.9% of fixed-line revenue. Baseline capital expenditure of R3,343 million in the 2009 financial year was largely for the deployment of technologies to support the growing data services business (including ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and residential areas. The continued focus on rehabilitating the access network and increasing the efficiencies and redundancies in the transport network as well as the initiation of the fixed-wireless roll-out contributed to the network evolution and sustainment capital expenditure of R1,488 million.

Telkom continues to focus on its operations support system investment with current emphasis on workforce management, provisioning and fulfilment, assurance and customer care, hardware technology upgrades on the billing platform and performance and service management and property optimisation. During the year ended March 31, 2009, R603 million was spent on the implementation of several systems.

Fixed-line capital expenditure, which includes spending on intangible assets, increased 3.0% to R6,794 million in the 2008 financial year from R6,594 million in the 2007 financial year and represented 20.9% of fixed-line revenue compared to 20.4% in the 2007 financial year. The increase in baseline and revenue generating capital expenditure to R4,095 million in the 2008 financial year from R3,568 million in the 2007 financial year was largely for the deployment of technologies to support the growing data services business (including ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth residential areas.

During the year ended March 31, 2008, R841 million was spent on the implementation of systems compared to R1,141 million in the 2007 financial year. Mobile capital expenditure (50% of Vodacom's capital expenditure) increased by 3.2% to R3,569 million in the 2009 financial year from R3,460 million in the 2008 financial year and represents 12.9% of mobile revenue compared to 14.4% in the 2008 financial year which was mainly spent on the continued investment to improve geographic coverage and increase capacity for both the voice and data networks in South Africa and to expand coverage in Tanzania and Mozambique.

Mobile capital expenditure, which includes spending on intangible assets, increased by 3.2% to R3,569 million and represents 12.9% of mobile revenue and was due to the continued investment to improve geographic coverage and increase capacity for both the voice and data networks. Mobile capital expenditure (50% of Vodacom's capital expenditure) decreased by 4.1% to R3,460 million in the 2008 financial year from R3,608 million in the 2007 financial year and represents 14.4% of mobile revenue compared to 17.5% in the 2007 financial year which was mainly spent on the cellular network infrastructure consisting of radio, switching and transmission network infrastructure and computer software. The decrease in capital expenditure in other African countries was largely as a result of decreased investment in Tanzania, Democratic Republic of the Congo and Mozambique offset by an increase in investment in Lesotho.

Our consolidated capital expenditure in property, plant and equipment for the 2010 financial year budgeted to be approximately R7.9 billion, of which approximately R7.0 billion is budgeted to be spent in our fixed-line segment, approximately R847 million is budgeted to be spent in our Multi-Links segment, and approximately R90 million is budgeted to be spent in our other segment. Our capital expenditures are continuously examined and evaluated against the perceived economic benefit and may be revised in light of changing business conditions, regulatory requirements, investment opportunities and other business factors.

The following table sets forth our consolidated indebtedness including finance leases as of March 31, 2009

(in millions)	Interest payment dates	Interest rate/ coupon (%)	Out-standing as of March 31, 2009 ZAR	Nominal amount out standing as of March 31, 2009 ZAR	Maturing Year ended March 31, 2010 ZAR	2011 ZAR	2012 ZAR	2013 ZAR	2014 ZAR	After 2014 ZAR
Telkom										
Bonds										
12.45% unsecured local bond due April 29, 2012 (TL12)[1, 2]	29 Apr & 29 Oct	12.45	**1,059**	**1,060**	–	–	–	1,060	–	–
11.90% unsecured local bond due April 29, 2015 (TL15)[1, 3]	29 Apr & 29 Oct	11.9	**1,159**	**1,160**	–	–	–	–	–	1,160
6% unsecured local bond due February 24, 2020 (TL20)[1, 4]	22 Feb	6	**1,325**	**2,500**	–	–	–	–	–	2,500
Zero coupon unsecured loan stock due September 30, 2010 (PP02)[5]	–	–	**349**	**430**	–	430	–	–	–	–
Zero coupon unsecured loan stock due June 15, 2010 (PP03)[6]	–	–	**1,131**	**1,350**	–	1,350	-	–	–	–
Commercial paper	–	11.44	**5,476**	**5,559**	5,559	–	–	–	–	–
Syndicated loans due December 17, 2011 and 2013[7]		11.46	**4,083**	**4,100**	–	–	820	–	3,280	–
Term loans	Various	9.67	**2,000**	**2,000**	2,000	–	–	–	–	–
Bank facilities										
R394 million uncommitted overdraft facility with ABSA Bank Limited, repayable on demand, and a R1 billion unsecured committed facility, repayable on 364 days notice	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion unsecured committed facility with The Standard Bank of South Africa Limited, repayable within 365 days of drawdown	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion unsecured committed facility with FirstRand Bank Limited, repayable on 364 days notice	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
$35 million unsecured short-term loan facility with Calyon Corporate and Investment Bank, repayable on demand	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion uncommitted short term facility with Sumitomo Mitsui Banking Corporation, repayable on demand	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R500 million call loan facility with iNkotha Investments Limited, repayable on demand	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion loan agreement with Old Mutual Specialised Finance (Proprietary) Limited, repayable on demand		Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
Various bank loans[8]	–	Various	**138**	**138**	–	20	13	9	0	96
Bank overdraft and other short-term debt	–		**106**	**106**	106	–	–	–		–
Finance leases[9]	n/a	13.43% – 37.78%	**984**	**984**	35	231	–	–	–	718
Total Telkom			**17,810**	**19,387**	7,700	2,031	833	1,069	3,280	4,474

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(in millions)	Interest payment dates	Interest rate/ coupon (%)	Out-standing as of March 31, 2009 ZAR	Nominal amount out standing as of March 31, 2009 ZAR	Maturing Year ended March 31, 2010 ZAR	2011 ZAR	2012 ZAR	2013 ZAR	2014 ZAR	After 2014 ZAR
Other										
Trudon (Pty) Ltd										
Various finance leases	–	Various	**2**	**2**	1	1	–	–	–	–
Telkom Media (Pty) Ltd										
Various loans	–	13%	**9**	**9**	–	5	2	2	–	–
Multi-Links Telecommunications Limited										
Naira 1,100 million Commercial paper	–	18.5%	**70**	**70**	70			–	–	–
$18 million Export Development Bank of Canada funding	–	LIBOR + 1.25%	**157**	**157**	35	–	–	122	–	–
$41.6 million Huawei Vendor Financing Facility funding	–	LIBOR + 2%	**323**	**323**	–	–	323	–	–	–
Africa Online Limited										
Various loans	–	Various	**11**	**11**	4	7	–	–	–	–
Bank overdrafts and other short-term debt	–		**20**	**20**	20	–	–	–	–	–
Total other			**592**	**592**	130	13	325	124	–	–
Grand total			**18,402**	**19,979**	7,830	2,044	1,158	1,193	3,280	4,474

1. *Listed on the Bond Exchange of South Africa.*
2. *The TL12 was issued on April 29, 2009 at a yield to maturity of 12.47% and listed on the Bond Exchange of South Africa.*
3. *The TL15 was issued on April 29, 2009 at a yield to maturity of 11.91% and listed on the Bond Exchange of South Africa.*
4. *2,500 of these bonds were issued on February 22, 2000 at a yield to maturity of 15.00%. The TL20 bond was listed on the Bond Exchange of South Africa with effect of April 1, 2005.*
5. *Issued on February 25, 2000. Original amount issued was R430 million. The yield to maturity of this instrument issued by Telkom is 14.37%.*
6. *Issued on June 15, 2000. Original amount issued was R1,350 million. The yield to maturity of this instrument is 15.175%.*
7. *Agreement effective from December 17, 2008 for three and five years.*
8. *R138 million of Telkom's indebtedness outstanding as of March 31, 2009 was guaranteed by the government of South Africa. Euro loans converted at the spot rate.*
9. *Secured by land and buildings.*